McDonald's!

McDonald's Corporation 1999 Annual Report

About the covers
Two children share a special moment at McDonald's in Singapore.

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Dear shareholders:

March 15, 2000

The most appropriate way to open this letter is to thank each of you for your investment in McDonald's. Your confidence in the Golden Arches is an important motivator for our worldwide McDonald's System of employees, owner/operators and suppliers—and it resulted in yet another record year for our Company. In 1999, net income per common share increased 13 percent in constant currencies, reflecting continued momentum in our worldwide business. We extended our global leadership position by leveraging both our high-quality people and the strength of our brand. And today, with nearly 27,000 restaurants and 1.5 million people serving 43 million customers each day in 119 countries, we begin this new and exciting century with a clear vision to be the world's best quick-service restaurant experience.*

In this letter, I am going to focus on the events of 1999 and the values that keep us strong. But first, I would like to comment on the performance of McDonald's stock last year by stating the obvious: I am disappointed with the five percent increase in the stock price in 1999 and the stock's performance early in 2000. I'm disappointed because that performance does not reflect the overall excellent results we are posting.

From my perspective, our stock price has been affected largely by several factors. First, there were concerns that economic instability in certain countries would continue to slow our growth. Yet, we are seeing improvement in regions hurt by economic issues over the past several years. Second, there was the impact of foreign currency translation on reported results. After four years of weaker foreign currencies, we're hopeful that this, too, will improve this year. Finally, there was well-reported volatility in the investment world, resulting in periodic roller-coaster rides for many stocks, notably global consumer brands such as ours.

For the most part, the factors I've just cited are cyclical and macroeconomic in nature. That's why McDonald's management concentrates on the aspects of our business we can impact—people practices, training, brand management, restaurant operations, margins, returns and profitable growth.

By paying steadfast attention to the details and disciplines of our business—"grinding it out" as our founder Ray Kroc used to say—we have created a uniquely successful company that has provided outstanding shareholder value over the long term. This is highlighted by the 17.6 percent compound annual total return McDonald's delivered to shareholders during the decade of the nineties. To put that in perspective, an investor who purchased 100 shares of our stock on January 1, 1990 for $3,450 and reinvested dividends has seen that investment grow to 432 shares, worth $17,415 at the beginning of this year.

Looking forward, I believe the next decade will be even better for McDonald's.

My confidence comes from the knowledge that we not only have a vision to be the best, we also have the people, brand and financial resources required to get us there. In fact, setting ambitious goals, then achieving them, is a McDonald's hallmark—as our accomplishments in 1999 underscore.

And what a year it was!

In August, we proudly opened the world's 25,000th McDonald's here in Chicago—fittingly, just a few miles from where Ray Kroc opened our first restaurant.

Our two largest geographic segments, the United States and Europe, generated constant currency operating income increases of 11 percent* and 13 percent, respectively. Also, your Company generated more than $1.1 billion of free cash flow in 1999, a 29 percent increase over 1998. We used this cash to repurchase more than 24 million shares of stock.

I am delighted to report that we added two new brands to the McFamily in 1999—Donatos Pizza in the U.S. and Aroma Café in the United Kingdom. These exciting concepts now join Chipotle Mexican Grill as trailblazers in our strategic effort to capture an ever-increasing percentage of the total meals-away-from-home market. We are also excited about our agreement to purchase Boston Market.

There were many times during the year when it was my honor to represent McDonald's in a setting where our commitment to being a responsible corporate citizen was recognized.

At a celebration of our 10-year alliance with the Environmental Defense Fund (EDF), Fred Krupp, EDF Executive Director, said the alliance "added a new dimension to the relationship between corporate America and environmental organizations." I was also present at a high school on the south side of Chicago when President Clinton praised McDonald's commitment to support business and minorities in economically disadvantaged neighborhoods, and for the example we set for corporate America.

I was very proud to cut the ribbon for a new Ronald McDonald House in Budapest, Hungary—the 200th Ronald House in the world.

I was reminded during hundreds of restaurant visits how valuable McDonald's work experience and training can be, especially for the world's youth. Perhaps my warmest memory was being hugged by a McDonald's manager because we hired her when she was a penniless immigrant with two young children...those children are now college graduates, one with a master's degree.

On a personal note, I was most pleased to recognize the contributions of Jim Cantalupo with his well-deserved promotion to president of the Company. Jim and I have been friends and business partners for 25 years, and we all respect his insights, leadership and accomplishments.

Turning to the operations side of the business, we installed our new Made For You food preparation system in the U.S. and Canada in 1999. This effort, which involved the total re-engineering of more than 13,000 kitchens without interrupting restaurant operations, represented a classic demonstration of the speed and ingenuity of our people. In the years ahead, the rest of our worldwide System will benefit from the hands-on experience gained from this effort to improve food taste and quality.

This is the McDonald's way—encouraging innovation and sharing the learnings for the good of the System. This enables us to grow at a pace that leaves our competition trailing behind.

We added 1,790 McDonald's restaurants in 1999, more than 90 percent of them outside the U.S. In 2000, we will continue to open restaurants at the remarkable pace of five per day—and as each day passes, the power of our brand grows stronger. We are also maintaining our focus on menu development, especially in the U.S., as evidenced by the new products served in our restaurants today. In addition, we are focusing on building brand loyalty with exciting promotions and by providing an every-day good value wherever we do business. Further, we are positioning ourselves to seize opportunities as the world's troubled economies improve.

Our people's ability to leverage experiences for the benefit of the System is a core value, one that relates directly to other values that historically have defined McDonald's. We put people first, always...we act with honesty and integrity in all aspects of our business... we believe in the power of teams and their diversity... we celebrate our achievements without allowing ourselves to be satisfied with the status quo.

And while observers might marvel at our size and reach, the McDonald's System knows that the real secret to our success is the values we live by. Values that are manifest in our desire to give back to the communities we serve and in the way we treat our people. Just as important, they are the reasons I am confident in predicting that in the next decade or so, we will more than double the number of McDonald's restaurants worldwide; we will become the best employer everywhere we do business; and our brand will touch everyone, every day, in every country in which we do business.

Our people, our brand and our sustaining values. These are the foundation of our global success, the reasons why you can continue to count on McDonald's in the years ahead, and the factors that I firmly believe will increase the value of your investment in McDonald's.

Sincerely,

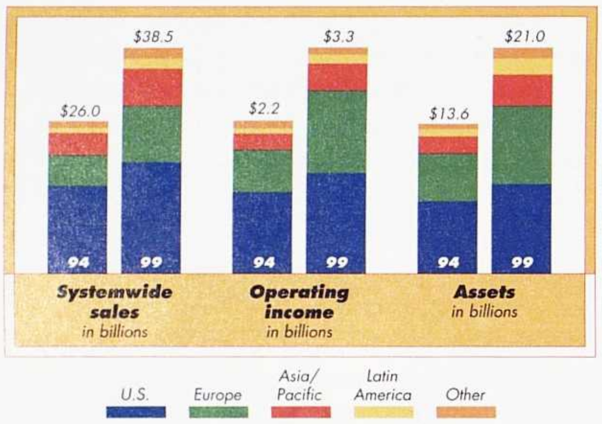
Jack M. Greenberg

Chairman and Chief Executive Officer, Shareholder

*Excluding 1998 Made For You costs and the 1998 special charge.

1999 Performance

Market price per common share at year end
in dollars



Systemwide sales in billions | **Operating income** in billions | **Assets** in billions

Highlights*

Return on average assets increased to 16.6 percent from 16.4 percent in 1998; return on average equity increased to 20.8 percent from 19.5 percent in 1998.

Diluted earnings per share increased 10 percent in 1999 and grew at an 11 percent compound annual growth rate over the past 10 years. In constant currencies, the 1999 increase was 13 percent.

McDonald's Systemwide sales reached $38.5 billion, a 10-year compound annual growth rate of 8 percent.

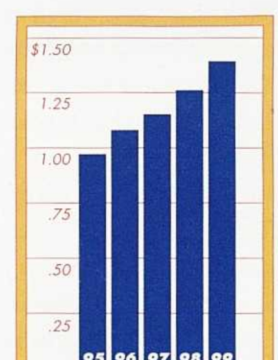
Operating income exceeded $3.3 billion in 1999, a 10 percent increase in constant currencies.

Free cash flow exceeded $1.14 billion in 1999, a 29 percent increase from $887 million in 1998.

The Company purchased 24.2 million shares of common stock for $933 million during the year.

11-year summary

(Dollars in millions, except per share data)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Systemwide sales	$38,491	35,979	33,638	31,812	29,914	25,987	23,587	21,885	19,928	18,759	17,333
Systemwide sales by type											
Operated by franchisees	$23,830	22,330	20,863	19,969	19,123	17,146	15,756	14,474	12,959	12,017	11,219
Operated by the Company	$ 9,512	8,895	8,136	7,571	6,863	5,793	5,157	5,103	4,908	5,019	4,601
Operated by affiliates	$ 5,149	4,754	4,639	4,272	3,928	3,048	2,674	2,308	2,061	1,723	1,513
Total revenues	$13,259	12,421	11,409	10,687	9,795	8,321	7,408	7,133	6,695	6,640	6,066
Operating income	$ 3,320	2,762(1)	2,808	2,633	2,601	2,241	1,984	1,862	1,679	1,596	1,438
Income before provision for income taxes	$ 2,884	2,307(1)	2,407	2,251	2,169	1,887	1,676	1,448	1,299	1,246	1,157
Net income	$ 1,948	1,550(1)	1,642	1,573	1,427	1,224	1,083	959	860	802	727
Cash provided by operations	$ 3,009	2,766	2,442	2,461	2,296	1,926	1,680	1,426	1,423	1,301	1,246
Capital expenditures	$ 1,868	1,879	2,111	2,375	2,064	1,539	1,317	1,087	1,129	1,571	1,555
Free cash flow	$ 1,141	887	331	86	232	387	363	339	294	(270)	(309)
Treasury stock purchases	$ 933	1,162	765	605	321	500	628	92	117	157	497
Financial position at year end											
Net property and equipment	$16,324	16,042	14,961	14,352	12,811	11,328	10,081	9,597	9,559	9,047	7,758
Total assets	$20,983	19,784	18,242	17,386	15,415	13,592	12,035	11,681	11,349	10,668	9,175
Total debt	$ 7,252	7,043	6,463	5,523	4,836	4,351	3,713	3,857	4,615	4,792	4,036
Total shareholders' equity	$ 9,639	9,465	8,852	8,718	7,861	6,885	6,274	5,892	4,835	4,182	3,550
Per common share											
Net income	$ 1.44	1.14(1)	1.17	1.11	.99	.84	.73	.65	.59	.55	.49
Net income–diluted	$ 1.39	1.10(1)	1.15	1.08	.97	.82	.71	.63	.57	.54	.48
Dividends declared	$ .20	.18	.16	.15	.13	.12	.11	.10	.09	.09	.08
Market price at year end	$ 40 5/16	38 7/16	23 7/8	22 11/16	22 9/16	14 5/8	14 1/4	12 3/16	9 1/2	7 1/4	8 5/8
Systemwide restaurants at year end	26,806	24,818	23,132	21,022	18,380	15,950	14,163	13,093	12,418	11,803	11,162
Systemwide restaurants by type											
Operated by franchisees	16,265	15,281	14,265	13,428	12,217	10,965	9,933	9,237	8,735	8,131	7,573
Operated by the Company	6,213	5,525	5,000	4,357	3,816	3,238	2,746	2,551	2,547	2,643	2,691
Operated by affiliates	4,328	4,012	3,867	3,237	2,347	1,747	1,484	1,305	1,136	1,029	898
Number of countries at year end	118	114	109	101	89	79	70	65	59	53	51
Number of shareholders at year end *(in thousands)*	899.5	888.2	880.2	904.6	769.7	609.2	464.5	398.3	371.7	362.6	330.5



Net income per common share–diluted*

(1) Including $162 million of Made For You costs and the $160 million special charge related to the home office productivity initiative for a pre-tax total of $322 million ($219 million after tax or $0.16 per share).

** Excluding 1998 Made For You costs and the 1998 special charge related to the home office productivity initiative. Information in constant currencies excludes the effect of foreign currency translation on reported results.*

McDonald's vision is to be the world's best quick-service restaurant experience. Being the best means providing outstanding quality, service, cleanliness and value so that we make every customer in every restaurant smile. To achieve our vision, we are focused on three worldwide strategies:

> be the best employer for our people in each community around the world;

> deliver operational excellence to our customers in each of our restaurants; and

> achieve enduring profitable growth by expanding the brand and leveraging the strengths of the McDonald's System through innovation and technology.

News and notes

Highlights

In 1999, we celebrated milestones, set records and achieved and surpassed goals, positioning the Company for an outstanding 2000. Here are some of the highlights from 1999.

- *Split our stock for the 12th time since 1965 and increased our cash dividend for the 25th time since our first dividend was paid in 1976.*
- *Expanded presence in Brazil to 100 cities.*
- *Opened our 3,000th restaurant in Japan and our 1,000th in both Germany and the United Kingdom.*
- *Entered four new countries–Azerbaijan, Gibraltar, Republic of Georgia and San Marino–bringing the number of countries we operate in to 118.*

25,000 and counting

With the opening of our 25,000th restaurant, McDonald's celebrated a milestone unsurpassed by any globally branded retailer. Located in the historic Bronzeville neighborhood in Chicago, Illinois, our 25,000th restaurant pays tribute to the area's rich musical history with a jazz-themed décor. This restaurant is owned and operated by new franchisee Ilene Porter, who joins McDonald's global network of 5,000 owner/operators. Porter, a former schoolteacher, is excited about the opportunity to positively impact young people in this revitalized community as an employer and business leader.

McDonald's is proud to be part of the revitalization of this and many other communities worldwide, providing jobs that teach important work skills and helping to attract other businesses into the community.

Millennium Dreamers

Building on our special relationships with children around the world, McDonald's and The Walt Disney Company teamed up with the United Nations Educational, Scientific and Cultural Organization (UNESCO) to sponsor the Millennium Dreamers global children's recognition program. This unprecedented worldwide initiative celebrates young people who are making a positive contribution to their communities. In the fall of 1999, McDonald's distributed nomination forms worldwide through our restaurants as well as in schools and through top children's organizations. From the thousands of nomination forms submitted, 2,000 exemplary young people from around the world were selected to participate in a special international children's summit to be held at the Walt Disney World Resort in Florida in May 2000.

McChanges

MCDirect Shares — our direct stock purchase plan — has changed! It is now more convenient than ever for investors to begin and build their McDonald's share ownership. Visit McDonald's Website at www.mcdonalds.com or call 1-800-228-9623 to obtain a Plan prospectus and enrollment form.

McDonald's represents about half of the international globally branded quick-service restaurant locations but garners about two-thirds of globally branded quick-service restaurant sales.

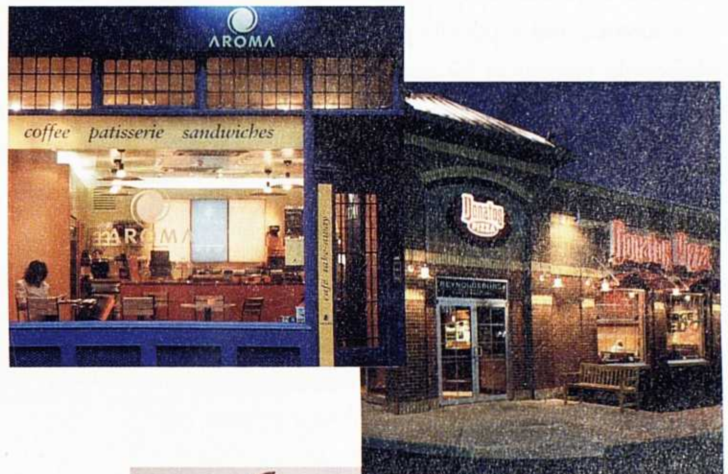
1999

- Opened our first restaurant at Disneyland-Paris.
- Introduced Breakfast Bagel sandwiches in more than half of our U.S. restaurants.
- Celebrated our 25th anniversary in the United Kingdom with a popular 2-for-1 Big Mac promotion.
- Jack Greenberg named Chairman of the Board.
- Installed Made For You food preparation system in virtually all U.S. and Canadian restaurants.
- Excited customers of all ages with six of our ten most popular U.S. Happy Meal events ever—Furbies, Inspector Gadget, Tarzan, Teenie Beanie Babies, Toy Story 2 and Winnie the Pooh.
- The 200th Ronald McDonald House worldwide opened in Budapest, Hungary.
- Jeanne Jackson was elected to our Board. She is CEO of Wal-Mart.com.
- Jim Cantalupo promoted to President of the Company.
- Ranked as the number one franchising organization in the U.S. by *Entrepreneur* magazine.

Building for success

Creating loyal customers builds our business and an innovative twist on Happy Meal premiums helps us bring them back again and again. Last year, the Build-a-Mickey and Inspector Gadget Happy Meal promotions in Europe and the U.S., respectively, generated a new kind of excitement. Customers collected connectable premiums—each a toy in itself—which when assembled formed a larger Mickey Mouse or Inspector Gadget toy.

In 1999, McDonald's restaurants around the world raised more than $6 million to support Ronald McDonald House Charities and other nonprofit organizations through a variety of activities on McHappy Day—a special day on which we honor our heritage of giving back to our communities.



Welcome to the McFamily

In 1999, we proudly welcomed Aroma Café, a small chain of coffeehouses serving sandwiches and pastries in the U.K., and Donatos Pizza, which boasts "Edge to Edge" toppings on a golden, crispy crust, to the McDonald's Family. And, we were excited to become majority owner of Chipotle Mexican Grill, a fresh-mex grill serving gourmet burritos and tacos.

All are great concepts with strong potential. By leveraging our competencies in site selection, operations, marketing, financial management and training plus tapping into our global supply infrastructure, these concepts can help grow our share of the global meals-away-from-home market.

In addition, we are excited about our agreement to purchase Boston Market and look forward to welcoming them to our McFamily.

McDonald's serves nearly 43 million customers every day in nearly 27,000 restaurants worldwide.

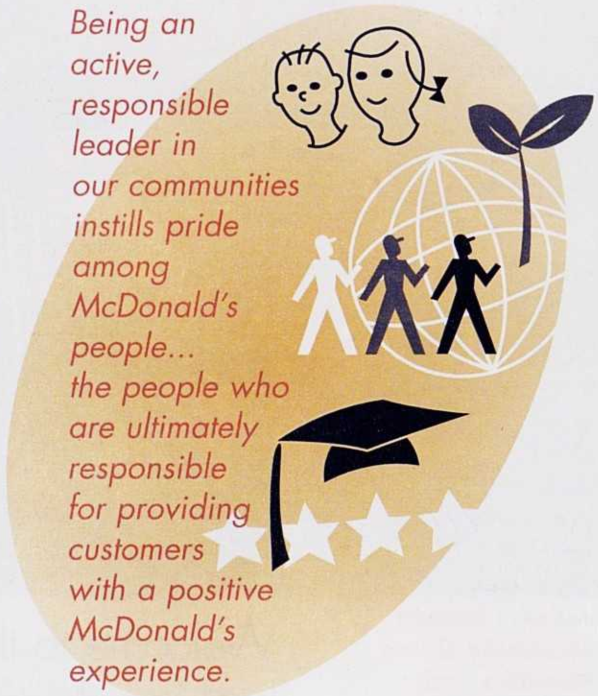
Social responsibility

The McDonald's brand lives and grows where it counts the most—in the hearts of customers worldwide. We, in turn, hold our customers close to our heart, striving to do the right thing and giving back to the communities where we do business. At McDonald's, social responsibility is a part of our heritage and we are committed to building on it worldwide; some of our efforts to do so are described here.

Ronald McDonald House Charities

McDonald's supports one of the world's premier philanthropic organizations, Ronald McDonald House Charities (RMHC). RMHC provides comfort and care to children and their families by awarding grants to organizations through chapters in 31 countries and supporting more than 200 Ronald McDonald Houses in 19 countries.

RMHC funds programs that find solutions to problems facing children today. For instance, in 1999 RMHC launched a new global program called *Changing the Face of the World* to provide free reconstructive surgeries to children in developing countries with cleft lips and other facial deformities. Other 1999 initiatives included supporting the American Refugee Committee, enabling them to meet the needs of children in refugee camps in Kosovo and Bosnia. Among the many programs RMHC will support in 2000 are the building of mobile health clinics to reach children in underserved areas, the distribution of an educational video on early childhood development for new parents and efforts to prevent teen suicide.



Being an active, responsible leader in our communities instills pride among McDonald's people... the people who are ultimately responsible for providing customers with a positive McDonald's experience.

Environmental leadership

As a global citizen, we believe the right to live in an environment of clean air, earth and water is fundamental and unwavering. We take action around the world to develop innovative solutions to local environmental challenges.

Ten years ago, we began a groundbreaking alliance with the Environmental Defense Fund (EDF) to reduce, reuse and recycle. Since then we eliminated 150,000 tons of packaging, purchased more than $3 billion of recycled products and recycled more than one million tons of corrugated cardboard in the U.S. "McDonald's is proving that a company can do well by doing good," according to Fred Krupp, EDF's Executive Director. For our ongoing efforts, Keep America Beautiful honored McDonald's with its Vision for America Award. We continue to set new waste reduction goals and are focusing on reducing energy usage in our restaurants.

Outside the U.S., our environmental efforts have been equally successful: In Switzerland, we annually avoid 420,000 kilometers of trucking and, in turn, the use of 132,000 liters of diesel fuel by shipping restaurant supplies via rail. In Latin America, we have partnered with Conservation International to create and implement a sustainable agriculture program to protect the rainforest in Costa Rica and Panama. In Australia, we have committed to meet that country's Greenhouse Challenge to reduce greenhouse emissions.

Diversity

We believe a global team of talented, diverse employees, franchisees and suppliers is key to the Company's ongoing success. We work to create and maintain an inclusive environment and expand the range of opportunities, thereby enabling all our people to reach their highest potential and generate the most value for McDonald's and the best experience for customers.

McDonald's also provides opportunities for women and minorities to become franchisees and suppliers and offers a wide range of support to help them build their businesses. These efforts have paid off: Today, more than 30 percent of McDonald's franchisees are women and minorities, and in 1999, we purchased about $3 billion worth of goods and services from women and minority suppliers.

Employment

Being a good corporate citizen begins with the way we treat our people. Around the world, the Company, our franchisees and affiliates, each are committed to creating a fun and rewarding environment, recognizing team and individual performance and generating numerous, meaningful career growth opportunities. One way we do this is by honoring the top one percent of our U.S. restaurant managers with the annual Ray Kroc Award.

We are focused on developing people at every level, starting in our restaurants. We invest in training and development programs that encourage personal growth and higher levels of performance. These efforts help us attract and retain quality people and motivate superior performance.

We encourage our suppliers and their vendors worldwide to share similar values and act accordingly. For a copy of a report on how we monitor and work with suppliers to achieve this goal, please call McDonald's at 1-630-623-7428.

Education

As one of the largest employers of youth, education is a key priority. So the Company, our franchisees and RMHC proudly provide about $5 million in educational assistance through a variety of scholarship programs. We also honor teachers' dedication and commitment to education with the McDonald's Education Award.

So that scientists and children today and in the future can learn more about dinosaurs, McDonald's partnered with Chicago's Field Museum to restore Sue—the largest T. rex fossil ever discovered—in a laboratory open for public viewing. In addition, two special exhibits featuring full-size replicas of Sue will begin touring the U.S. this summer.

Safety/quality

We are committed to ensuring safety and quality in every country where we do business. Accordingly, we set strict quality specifications for our products and work with suppliers worldwide to see that they are met. This includes ongoing testing in labs and on-site inspection of supplier facilities. Restaurant managers worldwide are extensively trained in safe handling and preparation of our food. Also, we continually review, modify and upgrade the equipment at PlayPlaces and Playlands to provide a safe play environment.

Our quality control efforts also encompass animal welfare. Notably, we are working with a leading animal welfare expert in the U.S. to implement an auditing process with our meat suppliers to ensure the safe and humane treatment of animals.

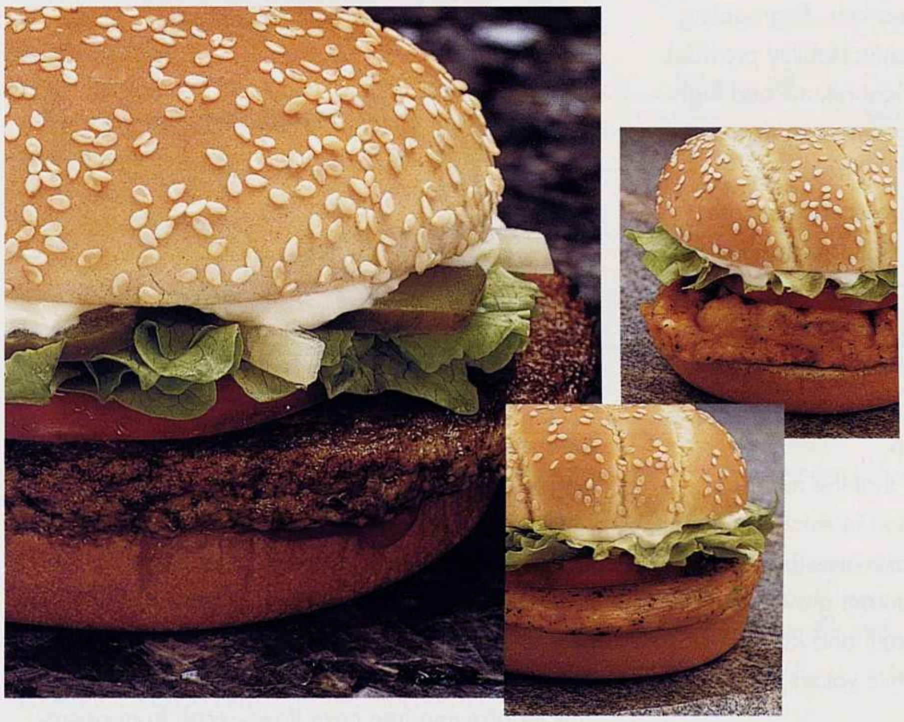
Food news

What's cookin'? McDonald's kitchens have been busy enhancing our menu to better satisfy customers and build sales with "best in class" products and new and different tastes. Here's a quick look at some of the delicious new food available at McDonald's.

Did you ever wonder . . .

. . . why the McFlurry spoon has such an odd shape?

It's because the spoon also serves as the spindle that mixes the treat. Since every McFlurry is mixed with its very own spindle, the highest level of sanitation is ensured.



Change for the better . . . taste

We're leveraging our Made For You food preparation system and giving customers more reasons to visit McDonald's with an improved menu in our U.S. restaurants. Our first steps toward enhancing our menu began in 1998 with the introduction of the larger Filet-O-Fish sandwich.

We followed this with the gradual introduction of McDonald's Big Xtra!, a large burger with special seasoning seared right into the all-beef patty and topped with crisp lettuce and juicy tomato and served on a sesame seed bun.

Fresh, whole-leaf lettuce and a slice of ripe tomato are also ingredients in our two new all-breast-meat chicken sandwiches. The Crispy Chicken is tempting customers with its more flavorful, crispy coating. And for those who like grilled chicken, our full-flavored Chicken McGrill sandwich with its zesty marinade fits the bill.

Serving these tasty sandwiches hot and fresh is sure to make customers think of McDonald's as their favorite place for hamburgers, chicken and fish.

In ***Mexico****, customers are greeting the day with a resounding OLÉ! as they bite into our new* ***McMuffin a la Mexicana****. A mouthwatering onion, jalapeño and tomato omelet is topped with bacon, cheddar cheese and frijoles, and is served on a toasted English muffin.*

Chicken McCrispy*–crispy, juicy, flavorful bone-in chicken–is adding spice to the menu in* ***Malaysia****,* ***Singapore****,* ***Taiwan*** *and* ***Thailand****.*

Something's shakin' at McDonald's . . .

our Garden, Chef and Grilled Chicken Caesar Salads.

Called McSalad Shakers, these great-tasting salads are served in large, clear shaker cups. Customers add their favorite McDonald's salad dressing, snap on the lid and shake it up, spreading the dressing evenly throughout, ensuring a great taste from the first to last bite. This innovative cup design makes it easier to enjoy a crisp, fresh, healthy salad on the go.

So, whether your favorite dressing is Ranch, Caesar, Red French or Fat Free Herb Vinaigrette, join the crowd and start "Shaking It Up!"

Cool 'n fruity

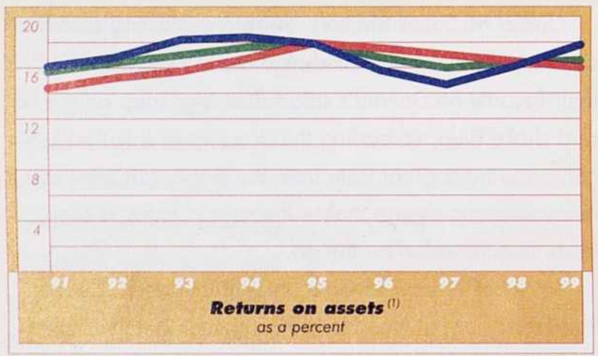
Consistent with our commitment to building sales with new tastes and variety, Fruit 'n Yogurt Parfaits are available at more than 2,000 U.S. McDonald's. Made fresh daily, our parfaits layer refreshing, smooth, low-fat vanilla yogurt with strawberries, blueberries and granola. Enjoy it as a snack, dessert or a light meal. We're sure you'll agree that low fat never tasted so good!

CFO review

March 15, 2000

McDonald's business is strong and growing. We are well positioned to add shareholder value over the long term through continued earnings growth and high returns on capital. Two years ago we stated an objective to grow earnings per share between 10% and 15%—excluding the effect of foreign currency translation—in each of the subsequent five years. To date we've achieved this objective, with earnings per share growth of 13% in 1999 and 12% in 1998 in constant currencies. We are confident that we will continue to achieve this objective.*

Our earnings increases drive growth in our already substantial cash from operations. Totaling $3.0 billion in 1999, cash from operations is used first to invest in our business, with the excess used primarily to repurchase stock.



(1) Operating income, excluding 1998 Made For You costs and special charges ÷ average assets

U.S. Outside the U.S. Consolidated

As we invest in our business, we evaluate our success based on the long-term returns these investments produce. Over the past two years, we have increased our U.S. return on assets through improved operations and an innovative approach to new capital investment. We now lease the land for virtually all new U.S. restaurants and sublease it to our owner/operators, while maintaining long-term occupancy rights. Also, our U.S. franchisees may now own new restaurant buildings, instead of leasing them from the Company, and the overwhelming majority have chosen to do so.

These changes saved the Company $230 million in capital expenditures in 1999, and we expect similar annual savings in 2000 and beyond. More importantly, these changes mean that new restaurants contribute immediately to an improvement in return on assets. In fact, U.S. return on assets increased 1.7 points in 1999, of which about 25% was the result of these programs.

**Excluding 1998 Made For You costs and the 1998 special charge.*

Our return on assets outside the U.S. has declined somewhat over the past few years, primarily due to economic volatility in certain markets. Segregating international markets by economic stability provides a clearer perspective on historical returns and highlights the opportunity for improvement as economies improve.

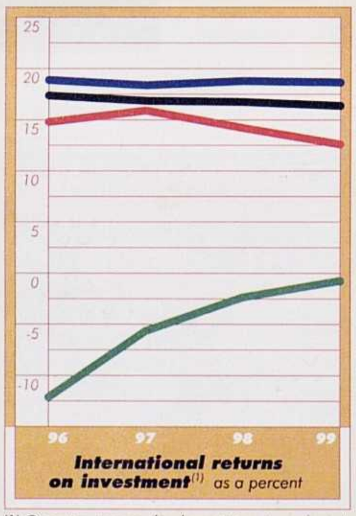
In established markets, where economies are stable, return on investment is high and has been relatively consistent since 1996.

As one would expect, returns in new markets, where we've been operating for less than five years, are low but improving. In fact, these returns have improved 11 points since 1996.

And it is also not surprising that the returns in emerging markets are lower than in established markets due to the substantial infrastructure investment required to support rapid restaurant growth. Further, these markets—particularly Brazil and Russia—have experienced significant economic volatility over the past several years.

And while the new and emerging markets represent just 22 percent of our asset base, they do affect the returns outside the U.S. In fact, excluding Brazil and Russia, total returns outside the U.S. would have been stable since 1997.

As the macroeconomic environment improves and we achieve economies of scale in new and emerging markets, we are well positioned to increase returns outside the U.S. We have already weathered the economic and currency volatility better than most other global companies. We believe this is because of our comprehensive infrastructure in each market, the power of our brand and our decentralized, local approach in each country. We also know from experience that the best way to manage through these cycles and emerge with an even stronger competitive position is to focus on the long term.



(1) Operating income plus depreciation ÷ gross assets

Established markets
Total outside the U.S.
Emerging markets
New markets

We believe McDonald's is well positioned to continue to report solid growth in earnings, increase returns through strong operations and capital efficiency, and grow cash flow...

Over time, our global diversity through operations in 119 countries, coupled with the strength of our brand and our local approach to growing our business, creates a significant competitive advantage that drives long-term earnings and cash flow growth.

Our growing free cash flow—cash from operations less capital expenditures—gives us the flexibility to repurchase stock while maintaining a strong balance sheet. Through share repurchase, we positively impact earnings per share growth over time; shareholders should receive a rate of return of at least our cost of capital; and we improve return on equity. In addition, share repurchase sends a strong message to investors reinforcing our commitment to the business and belief in our long-term strategies.

We believe McDonald's is well positioned to continue to report solid growth in earnings, increase returns through strong operations and capital efficiency, and grow cash flow, all of which will continue to add shareholder value over the long term.

Michael L. Conley
Executive Vice President, Chief Financial Officer

Year in review

Consolidated operating results

Operating results

(Dollars in millions, except per share data)	1999 Amount	1999 Percent increase/ (decrease)	1998 Amount	1998 Percent increase/ (decrease)	1997 Amount
Systemwide sales	$38,491	7%	$35,979	7%	$33,638
Revenues					
Sales by Company-operated restaurants	$ 9,512	7%	$ 8,895	9%	$ 8,136
Revenues from franchised and affiliated restaurants	3,747	6	3,526	8	3,273
Total revenues	13,259	7	12,421	9	11,409
Operating costs and expenses					
Company-operated restaurants	7,829	8	7,261	9	6,650
Franchised restaurants	738	9	678	10	614
Selling, general and administrative expenses	1,477	1	1,458		1,451
Other operating (income) expense	(124)	nm	(60)	nm	(114)
Made For You costs	19	nm	162	nm	
Special charge		nm	160	nm	
Total operating costs and expenses	9,939	3	9,659	12	8,601
Operating income (1)	3,320	20	2,762	(2)	2,808
Interest expense	396	(4)	414	14	364
Nonoperating (income) expense	40	(2)	41	11	37
Income before provision for income taxes (1)	2,884	25	2,307	(4)	2,407
Provision for income taxes (1)	936	24	757	(1)	765
Net income (1)	$ 1,948	26%	$ 1,550	(6)%	$ 1,642
Net income per common share (1)	$ 1.44	26%	$ 1.14	(3)%	$ 1.17
Net income per common share–diluted (1)	1.39	26	1.10	(4)	1.15

(1) The 1998 results include $162 million of Made For You costs and the $160 million special charge discussed on page 12, for a pre-tax total of $322 million ($219 million after tax or $0.16 per share).
nm Not meaningful

The following table presents the growth rates for reported results; results adjusted for 1998 Made For You costs and the 1998 special charge; and the adjusted results on a constant currency basis. All information in constant currencies excludes the effect of foreign currency translation on reported results, except for hyperinflationary economies, such as Russia, whose functional currency is the U.S. Dollar.

Constant currency operating results

	1999 Percent increase/(decrease) As reported	1999 Adjusted (1)	1999 Constant currency (1,2)	1998 Percent increase/(decrease) As reported	1998 Adjusted (1)	1998 Constant currency (1,2)
Systemwide sales	7%	7%	8%	7%	7%	10%
Total revenues	7	7	10	9	9	12
Operating income	20	8	10	(2)	10	12
Net income	26	10	13	(6)	8	10
Net income per common share	26	11	13	(3)	11	14
Net income per common share–diluted	26	10	13	(4)	10	12

(1) Excluding 1998 Made For You costs and the 1998 special charge.
(2) Excluding the effect of foreign currency translation.

In 1999, net income and diluted net income per common share increased 10% (13% for both in constant currencies), excluding 1998 Made For You costs and the 1998 special charge. In 1998, net income increased 8% and diluted net income per common share increased 10% (10% and 12% in constant currencies, respectively), excluding 1998 Made For You costs and the 1998 special charge. Including these items, reported net income and diluted net income per common share both increased 26% in 1999 and decreased 6% and 4%, respectively, in 1998. The spread between the percent change in net income and net income per common share in 1998 was primarily due to the absence of preferred dividends, since we retired our remaining Series E Preferred Stock in December 1997.

The primary currencies negatively affecting reported results in 1999 were the Brazilian Real, the British Pound Sterling and the Euro, partly offset by the stronger Australian Dollar, Japanese Yen and Southeast Asian currencies. In 1998, the Australian Dollar, Brazilian Real, Canadian Dollar, Japanese Yen and to a lesser extent, the Euro-based currencies, negatively affected reported results.

Nature of business

McDonald's operates primarily in the quick-service hamburger restaurant business. Beginning in 1999, the Company also operates other restaurant concepts: Aroma Café, Chipotle Mexican Grill and Donatos Pizza. Collectively these three businesses are referred to as "Other Brands." Throughout this discussion, Other Brands financial information is included in the Other segment, except where specifically noted.

In December 1999, the Company announced its intention to acquire certain assets related to the Boston Market brand. The transaction is expected to close in mid-2000.

Systemwide sales

Systemwide sales

(Dollars in millions)	1999 Amount	1999 Percent increase/ (decrease) As reported	1999 Constant currency (1)	1998 Amount	1998 Percent increase/ (decrease) As reported	1998 Constant currency (1)	1997 Amount
U.S.	$19,006	5%	na	$18,123	6%	na	$17,125
Europe	9,557	7	12%	8,909	14	15%	7,835
Asia/Pacific	6,436	15	6	5,579	(1)	12	5,616
Latin America	1,665	(5)	15	1,761	17	22	1,511
Other	1,827	14	15	1,607	4	10	1,551
Total	$38,491	7%	8%	$35,979	7%	10%	$33,638

(1) Excluding the effect of foreign currency translation.
na Not applicable

Systemwide sales include sales by all restaurants, whether operated by the Company, by franchisees or by affiliates operating under joint-venture agreements. We continue to focus on increasing market share through expansion and comparable sales increases with an emphasis on increasing customer satisfaction through quality, service, cleanliness and value. Constant currency sales increases in 1999 and 1998 were primarily due to restaurant expansion and positive comparable sales.

In 1999, the stronger Japanese Yen had a greater positive currency translation effect on sales compared with revenues. This is due to our affiliate structure in Japan. Under this structure, we record a royalty in revenues based on a percentage of Japan's sales, whereas all of Japan's sales are included in Systemwide sales. For this reason, 1999 Systemwide sales were less negatively affected by foreign currency translation than were revenues.

In 1999, 1998 and 1997, more than 80% of Systemwide sales were in the following eight markets—Australia, Brazil, Canada, France, Germany, Japan, the U.K. and the U.S. (referred to as the major markets).

In the U.S. and Europe, expansion and positive comparable sales drove sales increases in 1999 and 1998. In the U.S., successful promotions combined with local market initiatives and new product introductions contributed to the increases in both years. In Europe, successful promotions and value campaigns in France, Germany, Spain and the U.K. drove the increases in both years. Europe's results were dampened in 1999 by the difficult economic conditions in Russia.

In Asia/Pacific, the 1999 and 1998 constant currency sales increases were driven by expansion, partly offset by negative comparable sales. In 1999, China, South Korea and the Southeast Asian markets were the primary contributors to the increase. In addition, expansion in Japan and positive comparable sales in Australia contributed to the increase.

In Latin America, expansion drove the 1999 constant currency sales increase, which was partly offset by negative comparable sales. Expansion in Brazil and positive double-digit comparable sales in Mexico and Venezuela helped drive the increase. In 1998, sales increased due to expansion and positive comparable sales.

In the Other segment, Canada's positive comparable sales in both years drove the constant currency sales increases. Also, the addition of Other Brands contributed $91 million to the 1999 sales increase.

Average annual sales per restaurant (1)

	1999			1998			1997
		Percent increase/ (decrease)			Percent increase/ (decrease)		
(Dollars in thousands)	Amount	As reported	Constant currency(2)	Amount	As reported	Constant currency(2)	Amount
U.S.							
Traditional	$1,625	3%	na	$1,584	4%	na	$1,523
Satellite	473	3	na	459	3	na	445
Outside the U.S.							
Traditional	1,725	(4)	(2)%	1,801	(8)	(3)%	1,966
Satellite	483	7	(2)	450	(2)	6	457

(1) McDonald's restaurants in operation at least 13 consecutive months.
(2) Excluding the effect of foreign currency translation.
na Not applicable

Average sales are affected by several factors: comparable sales and the size, location and number of new restaurants. The number of new restaurants affects average sales as new restaurants historically have taken a few years to reach long-term volumes. In addition, over the last several years we have opened more restaurants in lower density areas outside the U.S. and in countries with lower average sales volumes. For these reasons, our focus is primarily on sales-to-investment ratios on individual sites and building comparable sales, rather than on average sales.

In 1999 and 1998, positive comparable sales drove the increases in U.S. average annual sales per restaurant. Outside the U.S., the decreases in average annual sales per traditional restaurant on a constant currency basis were due to the significant number of new restaurants added. In 1999 and 1998, average annual sales volumes of existing restaurants (restaurants opened more than 25 months) increased over the prior year on a constant currency basis.

In 1999, average annual sales for satellite restaurants located in Brazil, Canada and Japan, which comprise substantially all satellites outside the U.S., declined slightly in constant currencies, primarily due to an increase in the number of satellites in Brazil, which serve only desserts. Satellite restaurants generally have significantly lower development costs and sales volumes than traditional restaurants. The utilization of these small, often limited-menu restaurants has allowed profitable expansion into areas that would otherwise not have been feasible.

Average annual sales per new restaurant (1)

	1999			1998			1997
		Percent increase/ (decrease)			Percent increase/ (decrease)		
(Dollars in thousands)	Amount	As reported	Constant currency(2)	Amount	As reported	Constant currency(2)	Amount
U.S.							
Traditional	$1,473	11%	na	$1,332	8%	na	$1,237
Outside the U.S.							
Traditional	1,345	(1)	2%	1,357	(5)	1%	1,431
Satellite	446	–	(9)	446	(2)	6	453

(1) McDonald's restaurants in operation at least 13 months but not more than 25 months.
(2) Excluding the effect of foreign currency translation.
na Not applicable

In 1999 and 1998, the increases in average sales per new U.S. traditional restaurant were due to selective expansion in higher volume locations and the development of larger facilities that support higher average sales. On a constant currency basis, the average annual sales for new traditional restaurants outside the U.S. increased 2% in 1999 and 1% in 1998. In 1999, average annual sales for new satellite restaurants outside the U.S. decreased 9% in constant currencies, primarily due to proportionally more satellites in Brazil.

Total revenues

Total revenues include sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. These fees include rent, service fees and royalties that are based on a percent of sales with specified minimum payments along with initial fees. Fees vary by type of site and investment by the Company, and also according to local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise agreements that generally have 20-year terms.

Revenues grow as new restaurants are added and as sales build in existing restaurants. Menu price changes also affect revenues and sales, but it is impractical to quantify their impact because of different pricing structures, new products, promotions and product-mix variations among restaurants and markets.

On a constant currency basis, total revenues increased at a higher rate than sales in 1999 and 1998, due to the higher unit growth rate of Company-operated restaurants relative to Systemwide restaurants. In both years, this was primarily due to expansion in Europe and the consolidation of several affiliate markets due to an increase in ownership.

U.S. revenues increased $225 million in 1999 and $265 million in 1998 and accounted for almost 40% of consolidated revenues in both years. The revenue growth in both years was primarily due to positive comparable sales and expansion.

Europe's reported revenues grew $458 million in 1999 and $535 million in 1998 and accounted for more than 35% of consolidated revenues in both years. On a constant currency basis, Europe's revenues increased $657 million in 1999 and $560 million in 1998. The increases in both years were driven by expansion and positive comparable sales for the segment and strong sales performances in France, Germany and the U.K. In addition, the 1999 increase benefited from the consolidation of Sweden for financial reporting purposes.

Reported revenues in Asia/Pacific increased $199 million in 1999 and $110 million in 1998. On a constant currency basis, these revenues increased $146 million and $341 million in 1999 and 1998, respectively. The increase in 1999 was driven primarily by strong sales in China and South Korea. Positive comparable sales in Australia also contributed to the increase. The increase in 1998 was primarily due to the consolidation of several affiliate markets as a result of an increase in ownership.

Latin America's reported revenues declined $134 million in 1999 compared with an increase of $105 million in 1998. The reported decline in 1999 was primarily due to the currency devaluation in Brazil that occurred in early 1999, and the resultant difficult economic conditions in several markets. In constant currencies, Latin America's revenues increased $77 million in 1999 and $158 million in 1998. Positive comparable sales in Mexico and Venezuela, along with expansion in Brazil, contributed to the constant currency increase in 1999. The increase in 1998 was primarily due to expansion in Brazil and positive comparable sales for this segment.

Operating margins

Operating margin information and discussions relate to McDonald's restaurant business only and exclude Other Brands.

Company-operated margins

Company-operated margin dollars are equal to sales by Company-operated restaurants less the operating costs of these restaurants. Company-operated margin dollars increased $40 million or 2% in 1999 and $148 million or 10% in 1998. In constant currencies, the increases were $88 million or 5% in 1999 and $194 million or 13% in 1998. The increases were primarily driven by expansion.

Company-operated margins were 17.7% of sales in 1999, 18.4% in 1998 and 18.3% in 1997. Operating cost trends as a percent of sales were as follows: food & paper costs were flat in 1999 and decreased in 1998; payroll costs increased in 1999 and were flat in 1998; and occupancy & other operating costs increased in both years.

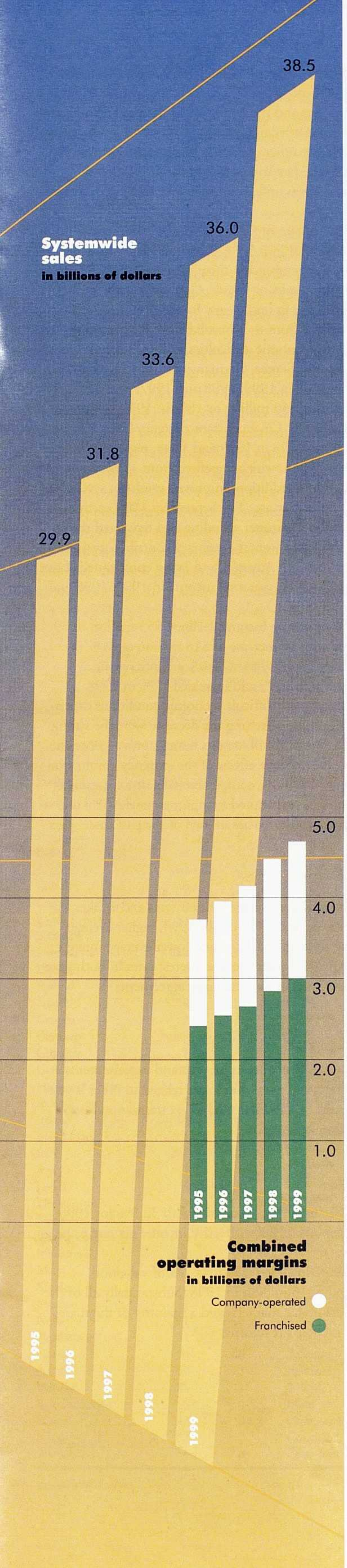
Company-operated margins (1)

	1999	1998	1997	1999	1998	1997
		(Dollars in millions)				*(Percent of sales)*
U.S.	$ 516	$ 490	$ 445	17.5%	17.3%	16.5%
Europe	743	703	615	19.2	20.0	19.9
Asia/Pacific	267	242	231	16.6	16.9	17.8
Latin America	70	118	116	14.1	19.1	21.3
Other	78	81	79	14.9	16.0	15.6
Total	$1,674	$1,634	$1,486	17.7%	18.4%	18.3%

(1) Relates to McDonald's restaurant business only and excludes Other Brands.

U.S. Company-operated margins increased as a percent of sales in 1999 due to lower food & paper costs as a result of less waste (partly due to the implementation of our Made For You food preparation system) and lower commodity costs, as well as lower occupancy & other operating costs. These cost reductions were partly offset by higher payroll costs, due to an increase in average hourly rates. U.S. Company-operated margins as a percent of sales in 1998 reflected lower food & paper costs, primarily due to lower commodity costs, and higher payroll costs, due to increased average hourly rates.

Europe's Company-operated margins as a percent of sales declined in 1999 as payroll costs increased, food & paper costs decreased, and occupancy & other operating expenses were flat. The difficult economic conditions in Russia accounted for more than half of the decline in Europe's margin percent from 1998.



In Asia/Pacific and Latin America, Company-operated margins declined as a percent of sales in 1999 and 1998. The September 1999 earthquake in Taiwan resulted in a temporary reduction in consumer spending. In addition, a difficult comparison to strong 1998 promotions in Hong Kong contributed to Asia/Pacific's 1999 decline. In Latin America, the margin declines were due to difficult economic conditions in several markets and negative comparable sales in 1999. While Brazil was the primary contributor to the decline in both years, its margin trends improved during the second half of 1999 compared with the first half of the year. In 1998, weaker foreign currencies in both Asia/Pacific and Latin America lowered margins as food & paper costs were negatively affected in markets where we import products.

Franchised margins

Franchised margin dollars are equal to revenues from franchised and affiliated restaurants less the Company's occupancy costs (rent and depreciation) associated with these sites. Franchised margin dollars represented more than 60% of the combined operating margins in 1999, 1998 and 1997. Franchised margin dollars increased $160 million or 6% in 1999 and $189 million or 7% in 1998. In constant currencies, the increases were $220 million or 8% in 1999 and $247 million or 9% in 1998. The increases were primarily driven by expansion and positive comparable sales.

Franchised margins *(1)*

(Dollars in millions)	1999	1998	1997
U.S.	**$1,730**	$1,650	$1,551
Europe	**828**	758	673
Asia/Pacific	**187**	173	197
Latin America	**144**	155	129
Other	**119**	112	109
Total	**$3,008**	$2,848	$2,659
(Percent of revenues)			
U.S.	**81.0%**	80.9%	81.1%
Europe	**79.0**	80.0	80.2
Asia/Pacific	**83.6**	84.3	88.0
Latin America	**77.5**	79.7	79.6
Other	**78.5**	80.2	80.8
Total	**80.3%**	80.8%	81.2%

(1) Relates to McDonald's restaurant business only and excludes Other Brands.

Franchised margins were 80.3% of applicable revenues in 1999, 80.8% in 1998 and 81.2% in 1997. The declines in consolidated margin percents reflected higher occupancy costs due to an increased number of leased sites in all geographic segments. Our strategy of leasing a higher proportion of new sites over the past few years has reduced initial capital requirements and related interest expense, resulting in higher returns on capital invested. However, as anticipated, franchised margins as a percent of applicable revenues have been negatively impacted because financing costs implicit in the lease are included in rent expense, which affects these margins; for owned sites, financing costs are reflected in interest expense, which does not affect these margins. The higher occupancy costs were partly offset by positive comparable sales in 1999 and 1998.

Also, our purchase of a majority interest in several affiliate markets in 1999 and 1998 shifted revenues from franchised and affiliated restaurants to Company-operated restaurants, reducing the franchised restaurant margin percents outside the U.S. This was the primary cause for the decline in Europe's margin percent in 1999 and in Asia/Pacific's margin percent in 1998.

Selling, general and administrative expenses

Consolidated selling, general and administrative expenses increased 1% in 1999 while decreasing to 3.8% of sales from 4.1% of sales in 1998 and 4.3% of sales in 1997. The increase in 1999 was due to the consolidation of Sweden for financial reporting purposes, spending to support McDonald's restaurant development and the addition of Other Brands. U.S. selling, general and administrative expenses decreased due to savings realized from the home office productivity initiative. In 1998, consolidated selling, general and administrative expenses were flat, due to lower advertising costs and home office productivity savings in the U.S. offsetting increased spending to support international restaurant development.

As a result of the home office productivity initiative, the Company expects to save about $100 million of selling, general and administrative expenses annually in 2000 and thereafter. About two-thirds of these savings were realized through 1999.

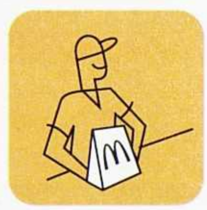
Other operating income and expense

Other operating income and expense includes gains on sales of restaurant businesses, equity in earnings of unconsolidated affiliates, net gains or losses from property dispositions and other transactions related to the food service business.

Other operating income and expense

(Dollars in millions)	1999	1998	1997
Gains on sales of restaurant businesses	**$ 75**	$ 61	$ 59
Equity in earnings of unconsolidated affiliates	**138**	89	73
Net losses from property dispositions	**(71)**	(71)	(29)
Other	**(18)**	(19)	11
Total	**$124**	$ 60	$114
Made For You costs	**$ (19)**	$(162)	
Special charge		$(160)	

Gains on sales of restaurant businesses include gains from sales of Company-operated restaurants as well as gains from exercises of purchase options by franchisees with business facilities lease arrangements (arrangements where the Company leases the businesses, including equipment, to owner/operators who have options to purchase the businesses). The Company's purchases and sales of businesses with its franchisees and affiliates are aimed at achieving an optimal ownership mix in each market. These transactions are an integral part of our franchising business and resulting gains are recorded in operating income. Equity in earnings of unconsolidated affiliates—businesses in which the Company actively participates, but does not control—is reported after interest expense and income taxes, except for U.S. restaurant partnerships, which are reported before income taxes. Net gains or losses from property dispositions result from disposals of properties due to restaurant closings, relocations and other transactions.



Equity in earnings from unconsolidated affiliates in 1999 included a $21 million gain from the sale of real estate in a U.S. partnership. Results in Japan, which benefited from a lower effective tax rate and the stronger Japanese Yen, also contributed to the increase. Net losses from property dispositions reflected the write-off of $24 million of software not used in the business in 1999 and a higher number of restaurant closings in 1998.

Made For You costs

During 1999, the Company completed the installation of the new Made For You food preparation system in virtually all restaurants in the U.S. and Canada. Through advances in equipment and technology, the new system allows us to serve fresher, better-tasting food at the speed of McDonald's. The system also supports future growth through product development because it can more easily accommodate an expanded menu. As part of the plan to introduce this system, the Company provided financial incentives during 1999 and 1998 of up to $12,500 per restaurant to owner/operators to defray the cost of equipment made obsolete as a result of converting to the new system. The Company also made additional payments in special cases where the conversion to Made For You was more extensive.

The Company incurred $19 million of Made For You costs in 1999 and $162 million in 1998, primarily consisting of incentive payments made to owner/operators as well as accelerated depreciation on equipment replaced in Company-operated restaurants.

Special charge

In second quarter 1998, the Company recorded a $160 million pre-tax special charge related to the Company's home office productivity initiative. The productivity plan was designed to improve staff alignment, focus and productivity and reduce ongoing selling, general and administrative expenses. As a result, the Company reduced home office staffing by approximately 500 positions, consolidated certain home office facilities and reduced other expenditures in a variety of areas. The special charge was comprised of $86 million of employee severance and outplacement costs, $41 million of lease cancellation and other facilities-related costs, $18 million of costs for the write-off of technology investments made obsolete as a result of the productivity initiative, and $15 million of other cash payments made in 1998.

The initiatives identified in the home office productivity plan were completed as of December 31, 1999, and no significant adjustments were made to the original plan. The remaining liability, primarily related to employee severance paid in semi-monthly installments over a period up to one year after termination, was approximately $31 million at December 31, 1999.

Operating income

Operating income increased $236 million or 8% to $3.3 billion in 1999 and $276 million or 10% to $3.1 billion in 1998, excluding 1998 Made For You costs and the 1998 special charge. In constant currencies, these increases were $303 million or 10% in 1999 and $347 million or 12% in 1998. The increases in 1999 and 1998 were primarily due to higher combined operating margin dollars. Higher other operating income also contributed to the increase in 1999. Including 1998 Made For You costs and the 1998 special charge, reported operating income increased 20% in 1999 and decreased 2% in 1998.

Operating income from the major markets accounted for more than 85% of consolidated operating income in 1999, 1998 and 1997, excluding 1998 Made For You costs and the 1998 special charge.

Operating income (1)

	1999			1998			1997
		Percent increase/ (decrease)			Percent increase/ (decrease)		
(Dollars in millions)	Amount	As reported	Constant currency(2)	Amount	As reported	Constant currency(2)	Amount
U.S.	$1,472	46%	11%(3)	$1,006(4)	(15)%	13%(3)	$1,180
Europe	1,203	8	13	1,115	13	14	989
Asia/Pacific	404	18	10	344	(5)	8	362
Latin America	128	(29)	(8)	181	11	17	163
Other	113	(3)	(2)	116	2	8	114
Total	$3,320	20%	10%(3)	$2,762(4)	(2)%	12%(3)	$2,808

(1) For financial reporting purposes, corporate selling, general and administrative expenses (costs related to home office support of the Company's global business) were allocated to the various geographic segments, beginning in 1999. Prior year amounts have been restated to conform to this presentation.

(2) Excluding the effect of foreign currency translation.

(3) Excluding 1998 Made For You costs and the 1998 special charge.

(4) Including Made For You costs of $162 million and the special charge of $160 million, for a total of $322 million.

U.S. operating income increased $144 million or 11% in 1999 and $148 million or 13% in 1998, accounting for over 40% of consolidated operating income in both years, adjusted for 1998 Made For You costs and the 1998 special charge. The increases in both years were due to higher combined operating margin dollars and lower selling, general and administrative expenses. Higher other operating income also contributed to the 1999 increase. Including 1998 Made For You costs and the 1998 special charge, U.S. operating income increased $466 million or 46% in 1999 and decreased $174 million or 15% in 1998.

Europe's operating income grew $88 million or 8% in 1999 compared with $126 million or 13% in 1998, accounting for over 35% of consolidated adjusted operating income in both years. In constant currencies, these increases were 13% in 1999 and 14% in 1998. Strong operating results in France, Germany, Spain and the U.K. drove the increases in operating income in both years. In addition, Europe's operating income growth in 1999 benefited from the consolidation of Sweden, due to our purchase of majority ownership. The economic difficulties in Russia dampened this segment's operating results in both years. France, Germany and the U.K. accounted for about 80% of Europe's operating income in 1999, 1998 and 1997.

Asia/Pacific's operating income increased $60 million or 18% in 1999 compared with a decrease of $18 million or 5% in 1998. On a constant currency basis, this segment's operating income increased 10% and 8% in 1999 and 1998, respectively. The increase in 1999 was driven primarily by Japan, which benefited from a lower effective tax rate, and strong results in South Korea. In addition, improved results in several Southeast Asian markets contributed to the increase. The September 1999 earthquake in Taiwan caused a temporary reduction in consumer spending and tempered the segment's results. In 1998, Hong Kong and Japan were the primary contributors to the constant currency increase. Australia and Japan contributed about two-thirds of Asia/Pacific's operating income in 1999, 1998 and 1997.

Latin America's operating income declined $53 million or 29% in 1999 compared with an increase of $18 million or 11% in 1998. On a constant currency basis, this segment's operating income decreased 8% in 1999 and increased 17% in 1998. Results in 1999 were negatively impacted by the difficult economic conditions experienced by several markets in the segment. Partly offsetting the decrease were the strong performances in Mexico and Venezuela. While Brazil's results have improved since the first half of 1999, it is still experiencing the negative effects of the currency devaluation that occurred in early 1999. Expansion and positive comparable sales drove improved results across this segment in 1998. Brazil has accounted for approximately 70% of Latin America's operating income in constant currencies in each of the past three years.

Interest expense

Interest expense decreased in 1999 due to lower average interest rates and weaker foreign currencies, partly offset by higher average debt levels. In 1998, higher average debt levels more than offset the weaker foreign currencies and lower average interest rates, causing an increase in interest expense. Lower average interest rates in both years were partly due to the Company's use of interest rate exchange agreements.

Nonoperating (income) expense

Nonoperating (income) expense includes miscellaneous income and expense items such as interest income, minority interests and gains and losses related to other investments, financings and translation. Results in 1999 reflected lower translation losses than 1998. Results in 1997 reflected translation gains.

Provision for income taxes

The effective income tax rate was 32.5% for 1999, compared with 32.8% for 1998 and 31.8% for 1997. The Company expects its 2000 effective income tax rate to be about 32.0%.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $557 million in 1999 and $516 million in 1998. Substantially all of the tax assets arose in the U.S. and other profitable markets, and a majority of them are expected to be realized in future U.S. income tax returns.

Restaurants

McDonald's continues to focus on managing capital outlays more effectively through prudent and selective expansion. In 1999, the Company added 1,790 McDonald's restaurants Systemwide, compared with 1,668 in 1998 and 2,110 in 1997. In 2000, the Company expects to add between 1,800 and 1,900 McDonald's restaurants, with a continued emphasis on traditional restaurants primarily in locations outside the U.S. Restaurant additions for Other Brands are anticipated to be between 160 and 180 in 2000.

In the U.S., a more selective restaurant development process reduced gross openings in 1999 and 1998 compared with 1997. Also in 1998, more low-volume satellites were closed, further reducing net additions.

Asia/Pacific's percent of total restaurants has grown primarily due to Japan's significant expansion. Japan added 406 restaurants in 1999 and 415 in 1998, representing more than 20% of restaurant additions in both years. Approximately 50% of Japan's restaurant additions in 1999 and about 60% in 1998 were satellites. These units have significantly lower development costs and sales volumes, compared with traditional restaurants. Therefore, these additions contribute significantly more to unit growth than sales growth.

Approximately 80% of Systemwide restaurants were in the major markets at the end of both 1999 and 1998. In 1999, 55% of restaurant additions were in these major markets, and we anticipate a similar percent for 2000. Longer term, China, Italy, Mexico, South Korea and Spain, which together represented more than 10% of McDonald's additions in 1999, are expected to represent a growing proportion of restaurant additions.

Systemwide restaurants

	1999	1998	1997
U.S.	12,629	12,472	12,380
Europe	4,943	4,421	3,886
Asia/Pacific	5,655	5,055	4,456
Latin America	1,789	1,405	1,091
Other	1,790	1,465	1,319
Total	26,806	24,818	23,132

Almost 65% of Company-operated restaurants and nearly 85% of franchised restaurants were located in the major markets at the end of 1999. Franchisees and affiliates operated 77% of restaurants at year-end 1999. That percentage has remained relatively constant over the past three years.

Satellite units at December 31, 1999 were as follows: U.S.–1,048; Europe–44; Asia/Pacific (primarily Japan)–1,351; Latin America (primarily Brazil)–532; and Other (primarily Canada)–269.

Systemwide restaurants *(at year-end 1999 and 1994)*

	1999	1994
Total	26,806	15,950
United States	12,629	10,238
Europe	4,943	2,159
Andorra	2	1
Austria	135	58
Azerbaijan	1	0
Belarus	6	0
Belgium	63	32
Bulgaria	16	1
Croatia	14	0
Czech Republic	53	15
Denmark	93	39
England	884	530
Estonia	6	0
Finland	92	31
France	790	352
Georgia	1	0
Germany	1,008	570
Gibraltar	1	0
Greece	40	7
Hungary	71	27
Iceland	3	1
Ireland	55	21
Isle of Man	1	0
Italy	242	23
Jersey	1	0
Latvia	6	1
Liechtenstein	1	0
Lithuania	6	0
Luxembourg	5	3
Macedonia	2	0
Malta	7	0
Moldova	2	0
Monaco	1	1
Netherlands	201	110
Northern Ireland	21	7
Norway	54	20
Poland	160	23
Portugal	75	11
Reunion Island	5	0
Romania	43	0
Russia	52	3
San Marino	1	0

	1999	1994
Scotland	71	29
Slovakia	8	0
Slovenia	14	3
Spain	229	82
Sweden	202	87
Switzerland	110	49
Ukraine	35	0
Wales	38	16
Yugoslavia	16	6
Asia/Pacific	5,655	2,168
Australia	684	454
Brunei	1	1
China	252	27
Fiji	2	0
Guam	6	5
Hong Kong	163	82
India	22	0
Indonesia	65	23
Japan	3,258	1,169
Macau	10	4
Malaysia	129	46
New Caledonia	1	1
New Zealand	146	80
Pakistan	11	0
Philippines	217	65
Saipan	2	1
Singapore	113	65
South Korea	176	31
Sri Lanka	1	0
Tahiti	2	0
Taiwan	319	85
Thailand	74	29
Western Samoa	1	0
Latin America	1,789	505
Argentina	205	49
Aruba	2	1
Bahamas	3	4
Bermuda (U.S. Navy Base)	0	1
Bolivia	6	0
Brazil	921	195
Chile	61	12
Colombia	21	0
Costa Rica	22	11

	1999	1994
Cuba (U.S. Navy Base)	1	1
Dominican Republic	9	0
Ecuador	7	0
El Salvador	3	4
Guadeloupe	6	1
Guatemala	27	9
Honduras	5	0
Jamaica	13	0
Martinique	7	1
Mexico	170	113
Netherland Antilles	4	3
Nicaragua	3	0
Panama	23	12
Paraguay	12	0
Peru	10	0
Puerto Rico (U.S.A.)	121	60
St. Maarten	1	0
Suriname	1	0
Trinidad	4	2
Uruguay	32	10
Venezuela	83	12
Virgin Islands	6	4
Other	1,790	880
Bahrain	7	1
Canada	1,125	824
Cyprus	9	0
Egypt	32	4
Israel	79	7
Jordan	7	0
Kuwait	25	1
Lebanon	5	0
Morocco	10	2
Oman	3	1
Qatar	5	0
Saudi Arabia	48	10
South Africa	75	0
Turkey	129	29
United Arab Emirates	15	1
Other Brands:		
Aroma Café	32	na
Chipotle Mexican Grill	37	na
Donatos Pizza	147	na

na Not applicable

Financial position and capital resources

Total assets and capital expenditures

Total assets grew $1.2 billion or 6% in 1999 and $1.5 billion or 8% in 1998. At year-end 1999 and 1998, about 70% of consolidated assets were located in our major markets excluding our affiliate in Japan. Net property and equipment rose $283 million in 1999 and represented 78% of total assets at year end.

Capital expenditures decreased $11 million or 1% in 1999 and decreased $232 million or 11% in 1998, reflecting our strategy of leasing a higher proportion of new sites; the U.S. new building program that gives owner/operators the option to own new restaurant facilities; weaker foreign currencies; and in 1998, fewer restaurant additions. Capital expenditures in 1999 included increased capital outlays for existing U.S. Company-operated restaurants related to implementation of the new Made For You food preparation system, and spending to update and refresh existing U.S. restaurants. More than 85% of qualifying new and rebuilt U.S. traditional restaurant buildings opened in 1999 are owned by owner/operators. In addition, the Company leased the land for over 90% of new U.S. traditional restaurants opened in 1999. The new building program, combined with our decision to lease more land, saved the Company approximately $230 million in capital outlays in 1999.

More than 70% of capital expenditures was invested in markets outside the U.S. in 1999, 1998 and 1997, and more than 65% was invested in our major markets excluding Japan in all three years.

Capital expenditures

(Dollars in millions)	1999	1998	1997
New restaurants	$ 1,231	$ 1,357	$ 1,531
Existing restaurants	515	398	433
Other properties	122	124	147
Total	$ 1,868	$ 1,879	$ 2,111
Total assets	$20,983	$19,784	$18,242

Expenditures for existing restaurants were made to achieve higher levels of customer satisfaction, including technology to improve service and food quality such as the Made For You food preparation system in the U.S. and Canada, and to enhance older facilities. Other properties primarily included expenditures for office buildings and related computer equipment and furnishings.

The Company's expenditures for new restaurants in the U.S. were minimal as a result of the building and leasing programs previously discussed. For new franchised and affiliated restaurants, which represent about 85% of all U.S. restaurants, the Company generally incurs no capital expenditures. However, the Company still has long-term occupancy rights for the land and receives related rental income. For new Company-operated restaurants, the Company generally leases the land and owns the restaurant building and equipment.

Average development costs outside the U.S. vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment owned by the Company, are managed through the use of right-sized restaurants, construction and design efficiencies, standardization and global sourcing. In addition, foreign currency fluctuations affect average development costs, especially in those markets where construction materials cannot be obtained locally.

Average development costs for traditional restaurants in major markets outside the U.S., excluding our Japan affiliate, were approximately $1.8 million in 1999, $1.9 million in 1998 and $1.8 million in 1997. Average annual sales per new traditional restaurant for the same markets were approximately $1.7 million in 1999, $1.8 million in 1998 and $1.7 million in 1997. Average development costs for satellite restaurants located in Brazil, Canada and Japan were approximately $200,000 in each of the last three years. The utilization of these small, often limited-menu restaurants has allowed expansion into areas that would otherwise not have been feasible.

Including affiliates, total land ownership was 42% and 44% of total restaurant sites at year-end 1999 and 1998, respectively.

Capital expenditures by affiliates, which were not included in consolidated amounts, were approximately $259 million in 1999, compared with $295 million in 1998. The decrease was primarily due to increased ownership in Sweden, partly offset by stronger foreign currencies, primarily the Japanese Yen.

Cash provided by operations

The Company generates significant cash from operations and has substantial borrowing capacity to meet its operating and discretionary spending requirements. Free cash flow (cash from operations less capital expenditures) increased 29% to $1.14 billion in 1999, compared with $887 million in 1998. Cash provided by operations was reduced by approximately $135 million of Made For You incentive payments in 1998 and $110 million of U.S. franchisee security deposit refunds in 1997. Cash provided by operations, along with other sources of cash such as borrowings, was used for capital expenditures, share repurchase, dividends and debt repayments.

Cash provided by operations

(Dollars in millions)	1999	1998	1997
Cash provided by operations	$3,009	$2,766	$2,442
Free cash flow	1,141	887	331
Cash provided by operations as a percent of capital expenditures	161%	147%	116%
Cash provided by operations as a percent of average total debt	42	41	41

In addition to its free cash flow, the Company can meet short-term needs through commercial paper borrowings and line of credit agreements. Accordingly, the Company strategically and purposefully maintains a relatively low current ratio—.48 at year-end 1999.

Financings and market risk

The Company is exposed to the impact of interest-rate changes and foreign currency fluctuations. McDonald's strives to minimize these risks by employing established risk management policies and procedures and by financing with debt in the currencies in which assets are denominated. See summary of significant accounting policies on page 28 for additional information regarding our use of financial instruments and the impact of the new accounting standard on derivatives.

The Company uses major capital markets and various techniques to meet its financing requirements and reduce interest expense. For example, currency exchange agreements in conjunction with borrowings help obtain desired currencies at attractive rates and maturities. Interest-rate exchange agreements effectively convert fixed-rate to floating-rate debt, or vice versa. The Company also manages the level of fixed-rate debt to take advantage of changes in interest rates.

The Company uses foreign currency debt and derivatives to hedge certain foreign currency royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on net income and shareholders' equity. The high proportion of foreign-dominated debt has lessened the impact of recently rising U.S. interest rates. Total foreign-denominated debt, including the effects of currency exchange agreements, was $5.3 billion and $5.2 billion at year-end 1999 and 1998, respectively.

Debt highlights

(As a percent)	1999	1998	1997
Fixed-rate debt as a percent of total debt	70%	67%	49%
Weighted-average annual interest rate of total debt	5.9	6.6	6.8
Foreign currency-denominated debt as a percent of total debt	76	75	80
Total debt as a percent of total capitalization (total debt and total shareholders' equity)	43	43	42

Moody's and Standard & Poor's have rated McDonald's debt Aa2 and AA, respectively, since 1982. Duff & Phelps began rating the debt in 1990 and currently rates it AA+. A strong rating is important to the Company because of its global development plans. The Company has not experienced, and does not expect to experience, difficulty in obtaining financing or refinancing existing debt. At year-end 1999, the Company and its subsidiaries had $1.5 billion available under committed line of credit agreements and $1.1 billion under shelf registrations for future debt issuance. In early 2000, the Company reduced the amount available under committed line of credit agreements to $1.0 billion and issued British Pounds Sterling Medium-Term Notes under one of the shelf registrations, in the equivalent of $200 million at a rate of 6.38%, due 2020.

The Company manages its debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, terminating exchange agreements and using derivatives. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue derivatives for trading purposes. All exchange agreements are over-the-counter instruments.

The Company actively hedges selected currencies to minimize the effect of fluctuating foreign currencies on reported results and to minimize the cash exposure of foreign currency royalty and other payments received in the U.S. In addition, where practical, McDonald's restaurants purchase goods and services in local currencies resulting in natural hedges, and the Company typically finances in local currencies, creating economic hedges.

The Company's exposure is diversified among a broad basket of currencies. At year-end 1999 and 1998, assets in hyperinflationary markets were principally financed in U.S. Dollars. The Company's largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) at year end were as follows:

Foreign currency exposures

(In millions of U.S. Dollars)	1999	1998
Euro-based currencies	$1,059	$1,072
Canadian Dollars	797	749
British Pounds Sterling	669 (1)	447
Australian Dollars	394	322
Brazilian Reais	124	302
Hong Kong Dollars	100	80

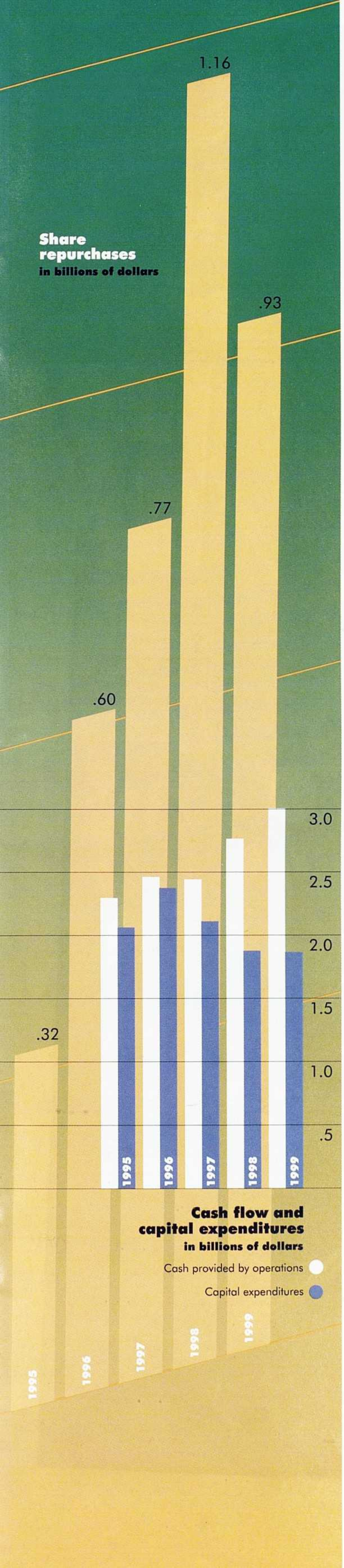
(1) Does not reflect the $200 million debt issuance in February 2000.

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest-rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on sales levels or local currency prices or the effect of fluctuating currencies on the Company's anticipated foreign currency royalties and other payments received in the U.S. Based on the results of these analyses of the Company's financial instruments, neither a one percentage point adverse change in interest rates from year-end 1999 levels nor a 10% adverse change in foreign currency rates from year-end 1999 levels would materially affect the Company's results of operations, cash flows or the fair value of its financial instruments.

Total shareholders' equity

The Company uses free cash flow and debt capacity to repurchase shares, as we believe this enhances shareholder value. Over the past 10 years, the Company has invested $5.3 billion to buy back 264 million shares at an average price of approximately $20, while maintaining a strong equity base. At year-end 1999, the Company held 310 million shares in treasury with a market value of $12.5 billion.

In September 1998, the Company announced plans to repurchase $3.5 billion of its common stock by year-end 2001. Between September 1998 and December 1999, we purchased 34.4 million shares for approximately $1.3 billion, including 24.2 million shares for $933 million in 1999. The Company sells common equity put options in connection with our share repurchase program and receives premiums for these options, which reduce the overall cost of treasury stock purchases. During 1999, the Company sold 27.0 million common equity put options, of which 17.5 million were



outstanding at December 31, 1999. Premiums received of $97.5 million in 1999 were reflected in shareholders' equity as a reduction of the cost of treasury stock purchased. During February 2000, 3.4 million common equity put options were exercised for $137.5 million. The remaining options expire at various dates through February 2001, with exercise prices between $39.92 and $44.03.

Given the Company's returns on equity and assets, management believes it is prudent to reinvest a significant portion of earnings back into the business and use free cash flow for share repurchase. Accordingly, the common stock dividend yield is modest. However, the Company has paid dividends on our common stock for 24 consecutive years through 1999 and has increased the dividend amount at least once every year. Future dividend increases will be considered after reviewing returns to shareholders, profitability expectations and financing needs. In November 1999, the Company announced that it intends to pay cash dividends on an annual, instead of quarterly, basis beginning in 2000. Future dividends declared at the discretion of the Company's Board of Directors will be paid annually in December.

Returns

Operating income is used to compute return on average assets, while net income less preferred stock dividends (if applicable) is used to calculate return on average common equity. Month-end balances are used to compute both average assets and average common equity.

Returns on assets and equity

(As a percent)	1999	1998(1)	1997
Return on average assets	16.6%	16.4%	16.0%
Return on average common equity	20.8	19.5	19.0

(1) Excluding Made For You costs and the special charge. Including Made For You costs and the special charge, return on average assets was 14.7% and return on average common equity was 17.1%.

The increases in the 1999 and 1998 returns were due to strong operating results, enhanced by the Company's continued focus on more efficient capital deployment. This included a more selective site selection process, the U.S. new building program that began in 1998 and the use of free cash flow for share repurchase. Also contributing to the increase in the 1999 return on average common equity was the significant increase in the amount of common equity put options entered into during the year, which reduced average common equity.

Other matters

Effects of changing prices—inflation

The Company has demonstrated an ability to manage inflationary cost increases effectively. This is because of rapid inventory turnover, the ability to adjust prices, cost controls and substantial property holdings—many of which are at fixed costs and partly financed by debt made cheaper by inflation. In hyperinflationary markets, menu board prices are typically adjusted to keep pace with inflation, mitigating the effect on reported results.

Year 2000

In 1999, the Company completed all necessary modifications, testing and replacements of significant systems to become Year 2000 compliant. As a result of the efforts undertaken, the Company experienced no major disruptions in significant information technology and noninformation technology systems and believes those systems successfully responded to the Year 2000 date change. In addition, the Company did not experience any significant operational or financial difficulties resulting from Year 2000 issues related to owner/operators or third-party service providers. The Company will continue to monitor its computer applications throughout the year to ensure that any latent Year 2000 matters that may arise are addressed promptly. The Year 2000 costs incurred by the Company did not have a material impact on the Company's financial position, results of operations or cash flows.

Euro conversion

On January 1, 1999, 11 member countries of the European Union established fixed conversion rates between their existing currencies ("legacy currencies") and one common currency, the Euro. The Euro is trading on currency exchanges and may be used in certain transactions such as electronic payments. Beginning in January 2002, new Euro-denominated notes and coins will be issued, and legacy currencies will be withdrawn from circulation. The conversion to the Euro has eliminated currency exchange rate risk for transactions between the member countries, which for McDonald's primarily consist of payments to suppliers. In addition, as we use foreign-denominated debt and derivatives to meet our financing requirements and to minimize our foreign currency risks, certain of these financial instruments are denominated in Euros.

McDonald's has restaurants located in all member countries and has been preparing for the introduction of the Euro for the past several years. The Company is currently addressing the issues involved with the new currency, which include converting information technology systems, recalculating currency risk, recalibrating derivatives and other financial instruments and revising processes for preparing accounting and taxation records. Based on the work to date, the Company does not believe the Euro conversion will have a significant impact on its financial position, results of operations or cash flows.

Forward-looking statements

Certain forward-looking statements are included in this report. They use such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations and involve a number of risks and uncertainties. Actual results could differ materially due to the success of operating initiatives and advertising and promotional efforts, the effects of the Euro conversion, as well as changes in: global and local business and economic conditions; currency exchange and interest rates; food, labor and other operating costs; political or economic instability in local markets; competition; consumer preferences, spending patterns and demographic trends; availability and cost of land and construction; legislation and governmental regulation; and accounting policies and practices.

service

CUSTOMER SATISFACTION
At McDonald's, we know that happy employees translate into happier, more satisfied customers.

A FAMILY AFFAIR
As a young mother of three, Dutch-born Gerarda Schiffers worked evenings as a crewperson in Germany. Today, she owns and operates her own McDonald's restaurant in Grevenbroich, a small German town. Two of her children also have ketchup in their veins. Her son Walter is manager of her restaurant, and her daughter Nicole is assistant manager.

Values that last a lifetime

Where can a job at a McDonald's restaurant take you? Virtually anywhere. Crew alumni around the world argue cases in court, report the news, fight fires, win Olympic Gold Medals and work within the McDonald's System — just to give a few examples. Wherever they are today, many former crewpeople say their jobs at McDonald's not only provided a paycheck but also gave them invaluable training and life skills.

"You learn how to deal with people. If there is one life experience that you get out of working at McDonald's, that's it!" says Pam McDonough, director of the Illinois Department of Commerce and Community Affairs, the state's economic development agency. In her current position — overseeing projects ranging from tourism to community development grants to international commerce — those people skills are indispensable.

McDonough worked at the front counter in her neighborhood McDonald's in Chicago, Illinois. That experience, she says, reinforced an attitude of "whatever you do, you do it well."

No matter what paths in life crewpeople eventually take, while at McDonald's they are on the front lines of our efforts to satisfy customers. That is why providing them with superior training and development and treating them with respect give us a real competitive advantage.

We communicate the importance of our crew's jobs in their orientation by emphasizing that "Customers are our business. Without them, we'd have no reason to open our doors. Your goal — every minute of every hour — is to make customers glad they came to McDonald's. Satisfied customers make your paychecks possible."

Clearly, crewpeople are critical to moving McDonald's closer to achieving our vision of being the world's best quick-service restaurant experience. Our customers have high expectations, and our goal is to make them smile. It's extremely rewarding when we meet that goal, but at times, we fall short. Making it right by offering a little extra care and service can go a long way in turning a disappointed customer into a happy one — a customer who's likely to come back. So, we encourage crewpeople to do just that.

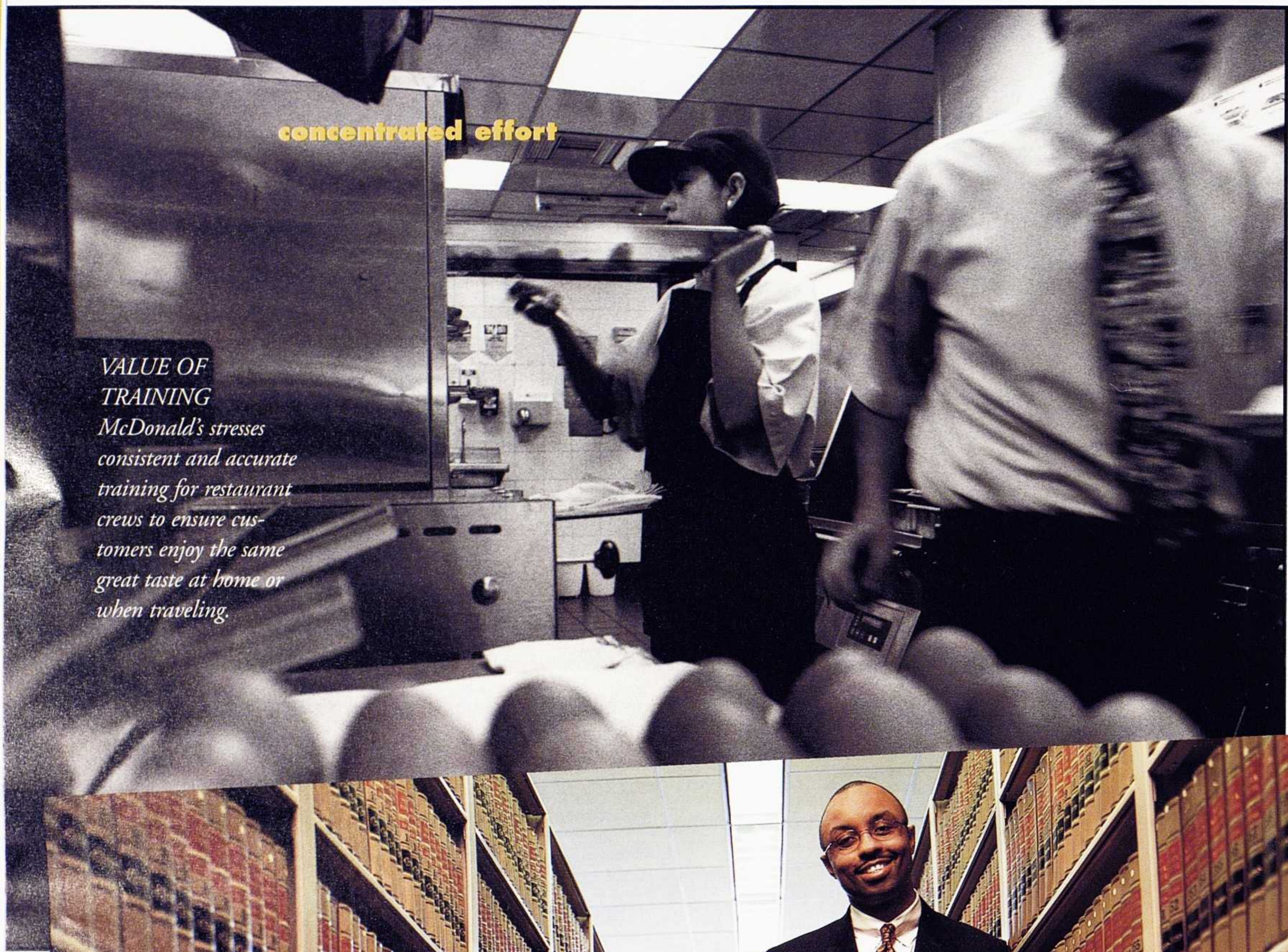
An element of restaurant training that has been a constant over the years is the shoulder-to-shoulder coaching we provide new crewpeople around the world, ensuring that they know the proper procedures for preparing and serving our products. This teaching method is one of the reasons why customers can count on a Big Mac tasting the same in Rome, Italy, as it does in Rome, New York.

We also continuously seek to improve our development programs. For example, by posting step-by-step pictorial procedures at key workstations in restaurants in the U.S., Canada and a number of other countries, we reinforce consistent and accurate operational procedures. In addition to teaching crewpeople how to properly salt our World Famous Fries, assemble sandwiches and present an order, a McDonald's work experience imparts important life skills, including punctuality, multitasking, responsibility, teamwork and problem solving. In addition, many develop self-confidence and enhance their communication and organization skills while working at our restaurants.

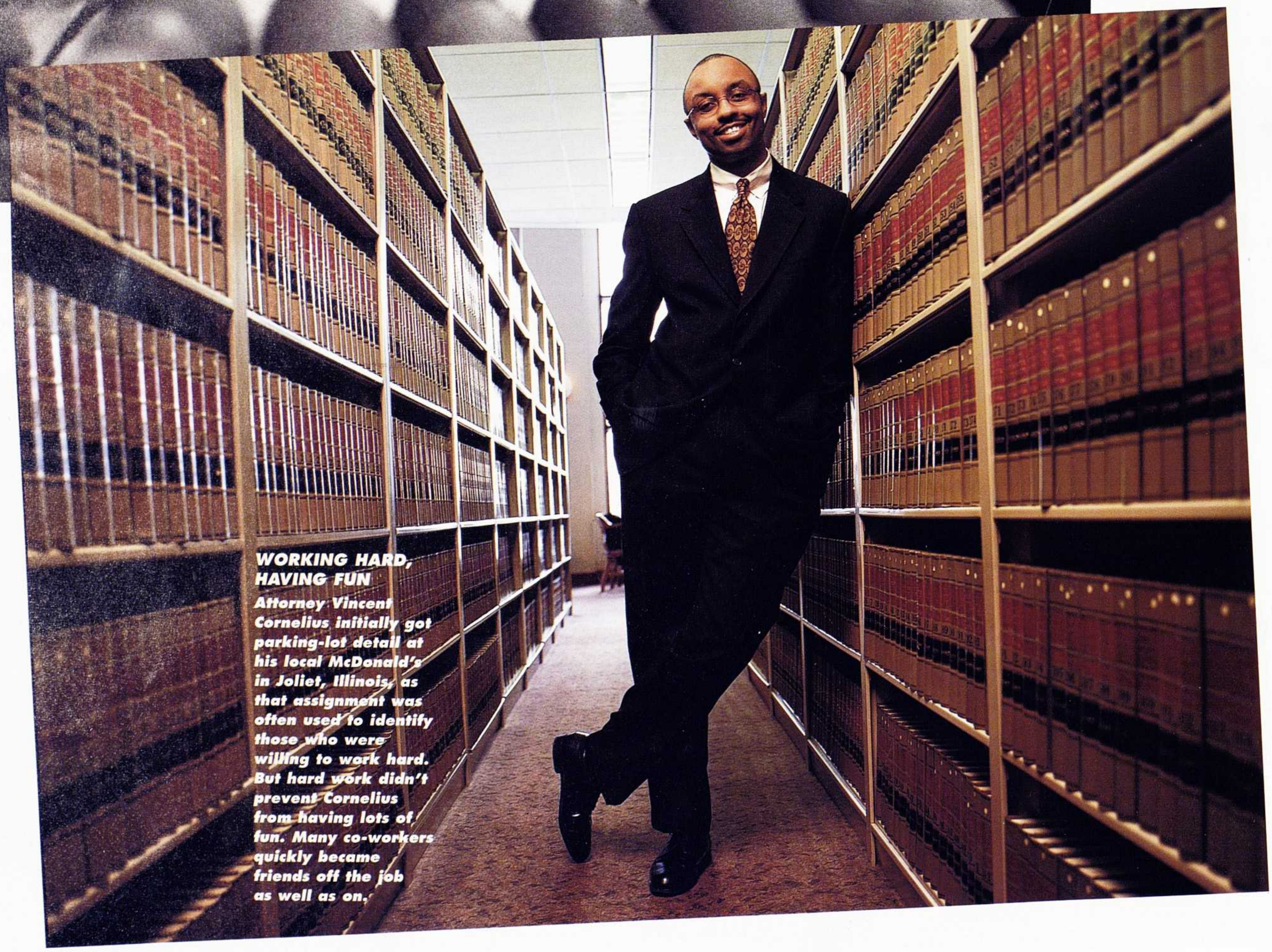
Furthermore, by increasing the emphasis on people and coaching skills in the curriculum for restaurant managers, we help them create challenging, yet fun, work environments that support customer satisfaction.

> *continued on page 20*

concentrated effort



VALUE OF TRAINING
McDonald's stresses consistent and accurate training for restaurant crews to ensure customers enjoy the same great taste at home or when traveling.



WORKING HARD, HAVING FUN
Attorney Vincent Cornelius initially got parking-lot detail at his local McDonald's in Joliet, Illinois, as that assignment was often used to identify those who were willing to work hard. But hard work didn't prevent Cornelius from having lots of fun. Many co-workers quickly became friends off the job as well as on.

BUILDING THE BUSINESS
Our restaurant managers are critical to our ongoing success, as they operate McDonald's restaurant businesses with average sales of approximately $1.7 million.

opportunities

EXTRA SPENDING MONEY
Like many young people, Rico Hizon earned his first real paycheck working at McDonald's in Manila, the Philippines. Hizon, who today is a Singapore-based news anchor and reporter for Global Business News Network CNBC Asia, enjoyed having extra cash. Although he saved some, he recalls spending much of his hard-earned money to build his prized record collection.

> continued from page 17

We are proud to report that our efforts to develop our employees and to provide them with opportunities have been recognized over the years. For example, we have been recognized for our diversity initiatives in the U.S., for our disabled employment programs in the Czech Republic and the U.S. and for our excellent employment practices in Singapore. In addition, McDonald's was named the best place to work in Brazil and among the top 100 employers for university graduates in the U.K.

We were also the first company to ever receive an award for being the best learning and development company in Sweden. And both the Austrian and Australian governments honored McDonald's for the premier training provided to restaurant employees. In fact, crew in Australia can earn school credit for working at a McDonald's restaurant, and restaurant managers in the U.S. can obtain college credit for courses taken at Hamburger University.

Yet, the greatest recognition is when customers return to our restaurants again and again. Not surprisingly, many former crewpeople are among those customers—as are their children.

Some crewpeople also decide to make their careers with McDonald's.

Consider Gerarda Schiffers, a McDonald's owner/operator in the town of Grevenbroich, Germany. As a mother of three young children, Schiffers worked evenings as a crewperson at a Company-operated restaurant. Ten years later, she became an owner/operator.

Schiffers recalls that as a crewperson, she felt like McDonald's was her family. This inclusiveness so impressed her that she creates the same family atmosphere in her restaurant today. She is also an excellent role model. Even after 15 years as a franchisee, Schiffers is still very visible in her restaurant, giving her best for her customers, and her crew readily follows her example.

Charlie Bell also decided to make a career with McDonald's, which has been his only employer. Bell got his start at a McDonald's in Sydney, Australia, when he accompanied a school friend to apply for a job. At that time, McDonald's was a relatively new company in Australia, and he was thrilled to be part of the growth that followed. Twenty-four years later, Bell is president of McDonald's Asia/Pacific, Middle East and Africa Group—an area with half the world's population and only 5,500 McDonald's restaurants. Just as in his early days, Bell is excited by the opportunities to expand Brand McDonald's in this dynamic part of the world.

"The thing that impressed me most was how organized McDonald's was. I was treated with dignity and respect, even though I was only 15 years old. They had a way of motivating people and taught me the value of teamwork. I found that giving customers good service is enjoyable and fulfilling," says Bell.

Life lessons and skills acquired at McDonald's can be applied to virtually any occupation. Those who went on to other careers recall being trained by co-workers for tasks ranging from working the cash register to grilling hamburgers. Then came the "trial by fire" when they were on their own, although help was never more than a few steps away.

Cristian Enrique Villarreal Vargas was in high school when he began working at a McDonald's in Mexico City, Mexico. He recalls that after he was trained at the french fry station, he was given the responsibility of handling the job during the hectic lunch rush. "I had to learn fast," he laughs.

"McDonald's taught me a lot about responsibility and organization. I learned to work fast with zero tolerance for errors," says Villarreal. As a senior foreign exchange dealer for MONEX, he uses those skills in today's fast-paced currency market.

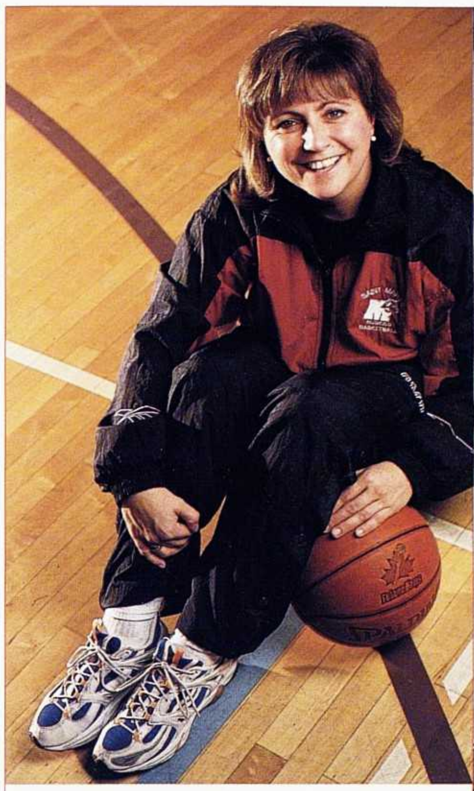
Rico Hizon says he was a "shy kid" when he joined McDonald's in Manila, the Philippines. But learning how to deliver great customer service at the front counter and the drive-thru built his confidence. "My personality was formed at McDonald's," says Hizon, who today is a news anchor and reporter for Global Business News Network CNBC Asia. Currently based in Singapore, Hizon reports on the business and financial news throughout the Asia/Pacific region—a job that requires a great deal of composure and excellent communication skills. And, he is quick to attribute the development of those talents to his McDonald's work experience, which "gave me the confidence to meet and deal with people."

McDonald's also provides an opportunity for employees to learn multitasking and to think on their feet. "At first, juggling tasks while stationed at the drive-thru was quite a challenge," laughs Vincent Cornelius, today an attorney in Wheaton, Illinois. Then, one day he was doing it with ease, "just like riding a bicycle." He notes that working at McDonald's was fun and that he occasionally visits his former restaurant manager in nearby Joliet, Illinois.

Not surprisingly, high school and college students as well as many adults and seniors, who are looking for flexible schedules, extra money and stimulating, fun work environments, find our crew opportunities especially appealing.

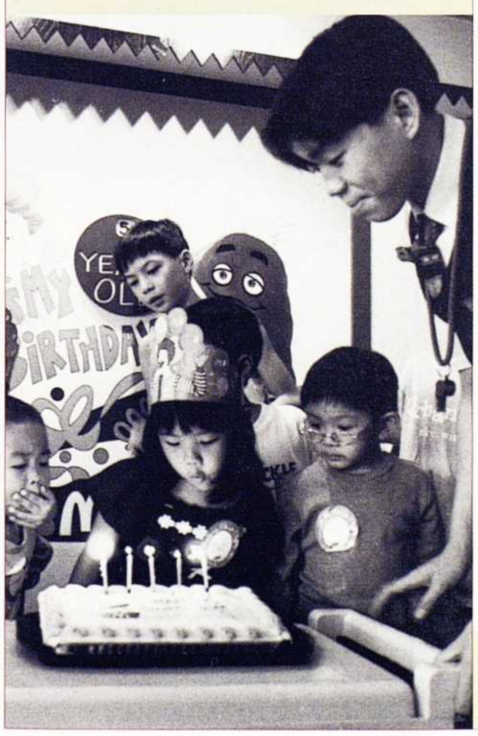
Some tell us they joined McDonald's at the suggestion of friends, others at the behest of parents. Cornelius sums it up nicely, "My mother was intent on making us responsible... I'm grateful for the way she got me ready for life—and McDonald's was one of those avenues."

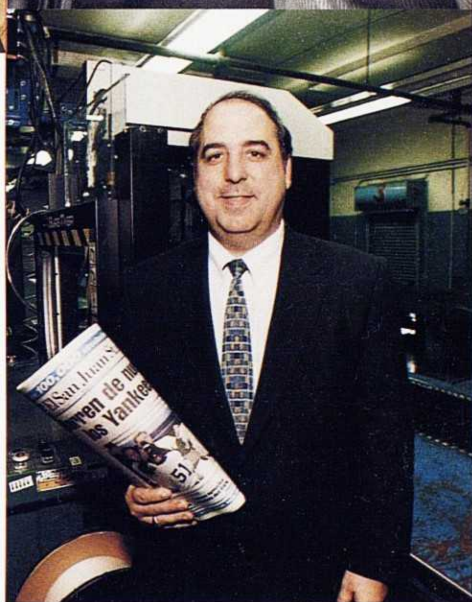
Such praise is encouraging, as we aim to be the world's premier training organization. We know that whether our crewpeople stay with the McDonald's System or pursue other opportunities, they are helping us build our business. In return, we're giving them skills and values that will last a lifetime.



Jill Jeffrey remembers the fun she had working at a McDonald's in Bedford, Nova Scotia, with high school friends and basketball teammates. As crewpeople, they worked together, performing tasks that "were outlined clearly in terms of your duties and your role." They were respected for working hard and rewarded with flexible schedules that accommodated their school and sports schedules. Today, as head coach for the varsity women's basketball team at Saint Mary's University in Halifax, Nova Scotia, Jeffrey sets clear expectations for her team and shows appreciation for her players' best efforts.

a sense of fun





Gerardo Angulo worked at his local McDonald's in Mount Kisco, New York. His training focused on what it meant to be a part of McDonald's, as well as on how to do his job—his first task was making hot apple pies. "The training put an emphasis on being part of the larger McDonald's organization. That was special," he says. Today, Cuban-born Angulo lives in Puerto Rico and is owner and publisher of more than 20 publications, including the Pulitzer Prize-winning San Juan Star *newspaper. The orientation he provides his employees follows the approach he experienced at McDonald's. "I try to give my people knowledge about our company and build their loyalty to the overall business," says Angulo.*

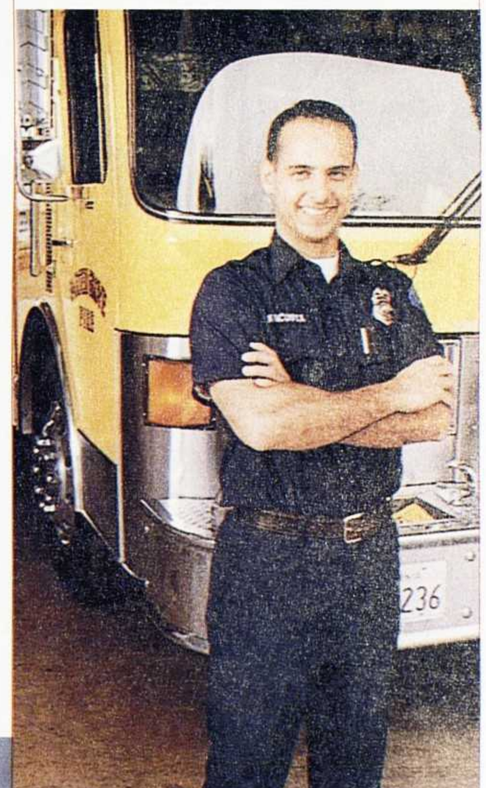
training

teamwork

Olympic swimmer Amy Van Dyken learned the value of teamwork while working at her local McDonald's in Englewood, Colorado. Van Dyken, who in 1996 became the first American woman to earn four Gold Medals at one Olympics, explains, "The only person you see is me... but, I could not have gotten to where I am without a team," which includes her coaches, doctors and parents. "At McDonald's, as a customer, the people you see are the crew at the drive-thru or at the register. But they can't do their jobs without the people behind the scenes."

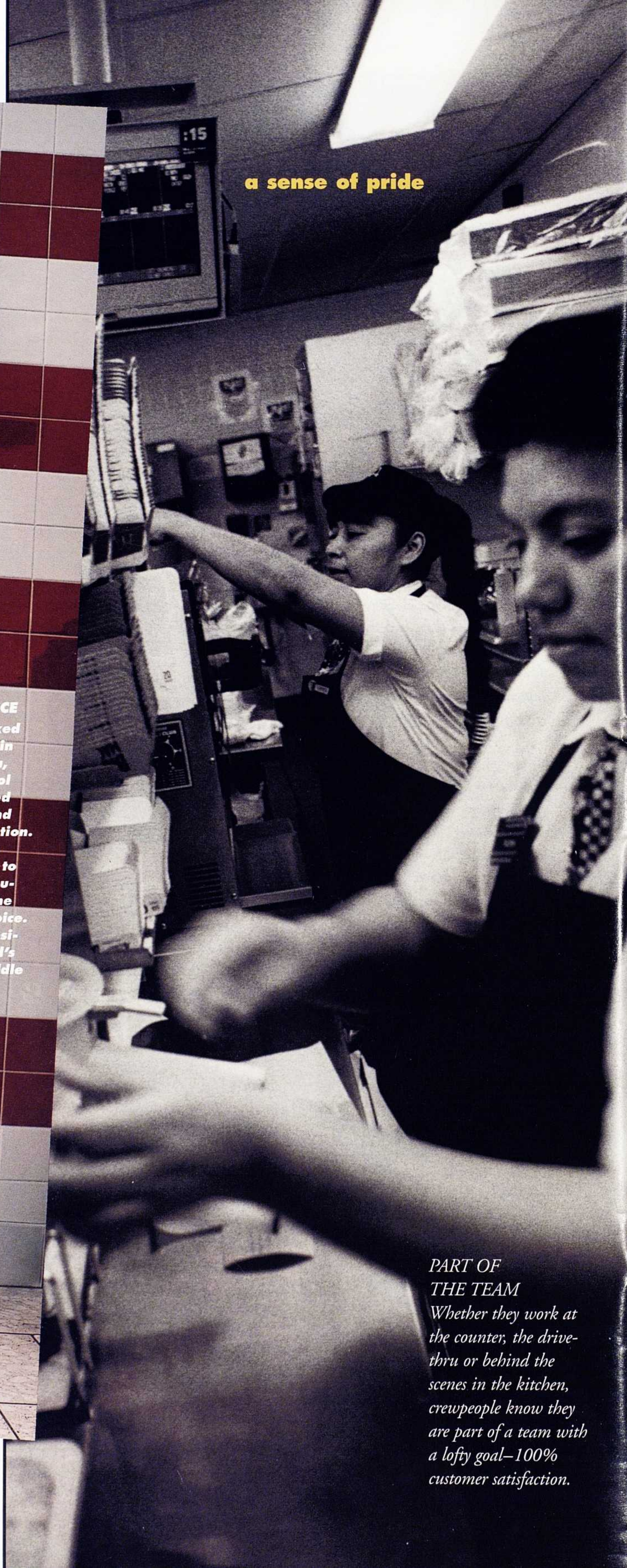
people skills

Alberto Acosta, a firefighter and paramedic for the city of Garden Grove in California, progressed from crew member to assistant manager during his four years working at McDonald's. He recalls learning to "relate to people... and to problem solve" and wanting "customers to come back to our restaurant with good feelings." Today, Acosta uses those skills to give reassurance and care to people in emergency situations. Additionally, Acosta teaches a paramedics class, which draws upon his experience as a crew trainer at McDonald's. "I learned I could teach... I could relate to a wide age group," he adds. "I felt really good about that skill, and I took it with me to college and to my work."

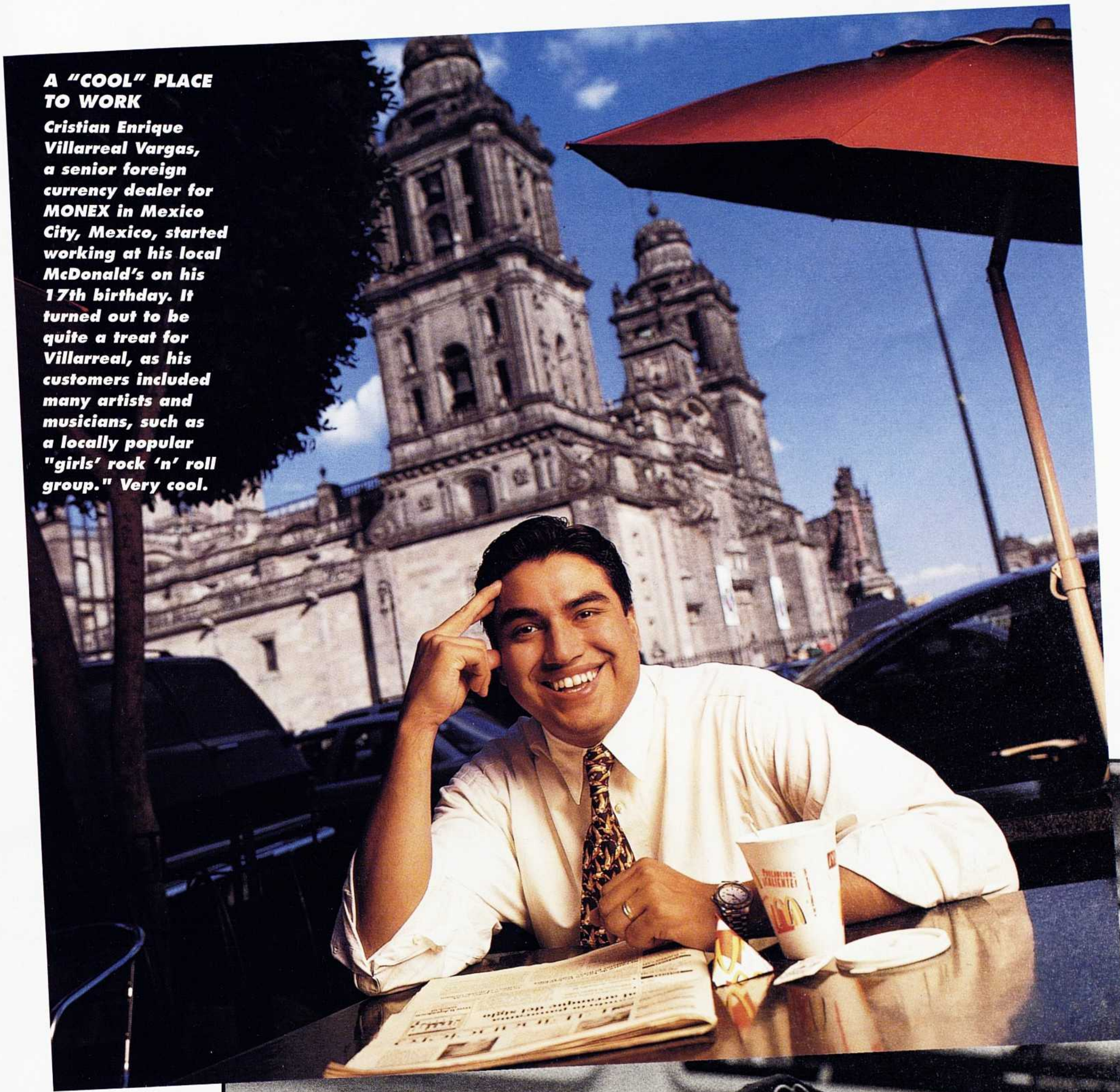


a sense of pride

A CAREER CHOICE
Charlie Bell worked at a McDonald's in Sydney, Australia, during high school and as he pursued studies in film and television production. But when he was offered a chance to become the restaurant's manager, he took it. Good choice. Today, Bell is president of McDonald's Asia/Pacific, Middle East and Africa Group.

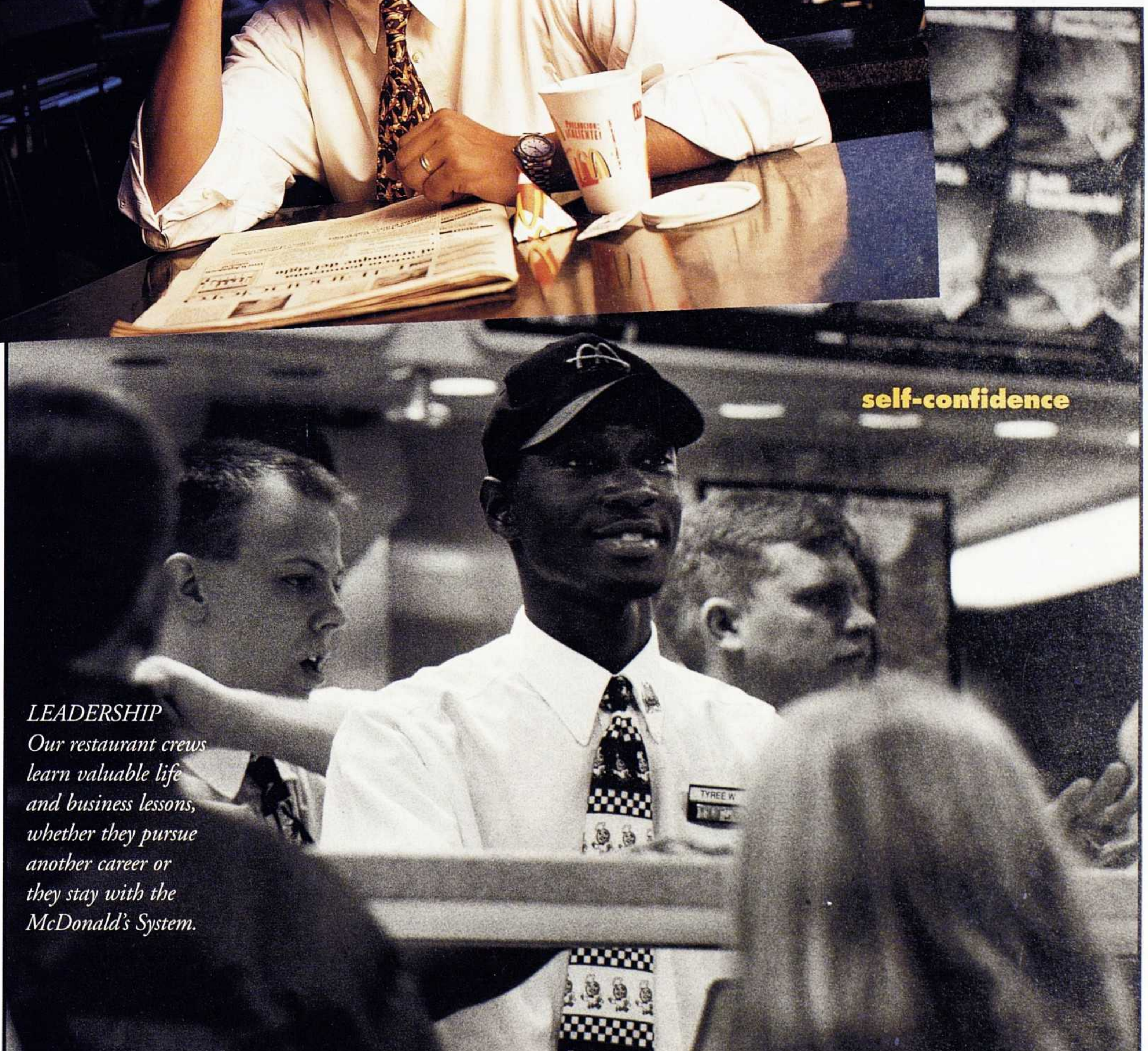


PART OF THE TEAM
Whether they work at the counter, the drive-thru or behind the scenes in the kitchen, crewpeople know they are part of a team with a lofty goal–100% customer satisfaction.



A "COOL" PLACE TO WORK

Cristian Enrique Villarreal Vargas, a senior foreign currency dealer for MONEX in Mexico City, Mexico, started working at his local McDonald's on his 17th birthday. It turned out to be quite a treat for Villarreal, as his customers included many artists and musicians, such as a locally popular "girls' rock 'n' roll group." Very cool.



self-confidence

LEADERSHIP
Our restaurant crews learn valuable life and business lessons, whether they pursue another career or they stay with the McDonald's System.

welcomed guest

A SMILE EVERY TIME

As the entire McDonald's System knows, customers are our business. We are rewarded each time a customer –young or old– leaves McDonald's with a smile.

DEALING WITH THE PUBLIC

Pam McDonough laughs when she recalls that her mother drove her to a neighborhood McDonald's and told her she was getting a job. Yet, the people skills and confidence she developed there have proven invaluable. McDonough, who currently is director of the Illinois Department of Commerce and Community Affairs, often has to give speeches at the drop of a hat. Thanks, mom.

Consolidated statement of income

(In millions, except per share data)	Years ended December 31,	1999	1998	1997
Revenues	Sales by Company-operated restaurants	$ 9,512.5	$ 8,894.9	$ 8,136.5
	Revenues from franchised and affiliated restaurants	3,746.8	3,526.5	3,272.3
	Total revenues	13,259.3	12,421.4	11,408.8
Operating costs and expenses	Food and packaging	3,204.6	2,997.4	2,772.6
	Payroll and employee benefits	2,418.3	2,220.3	2,025.1
	Occupancy and other operating expenses	2,206.7	2,043.9	1,851.9
	Total Company-operated restaurant expenses	7,829.6	7,261.6	6,649.6
	Franchised restaurants–occupancy expenses	737.7	678.0	613.9
	Selling, general and administrative expenses	1,477.6	1,458.5	1,450.5
	Other operating (income) expense	(124.1)	(60.2)	(113.5)
	Made For You costs	18.9	161.6	
	Special charge		160.0	
	Total operating costs and expenses	9,939.7	9,659.5	8,600.5
	Operating income	3,319.6	2,761.9	2,808.3
	Interest expense–net of capitalized interest of $14.3, $17.9 and $22.7	396.3	413.8	364.4
	Nonoperating (income) expense	39.2	40.7	36.6
	Income before provision for income taxes	2,884.1	2,307.4	2,407.3
	Provision for income taxes	936.2	757.3	764.8
	Net income	$ 1,947.9	$ 1,550.1	$ 1,642.5
	Net income per common share	$ 1.44	$ 1.14	$ 1.17
	Net income per common share–diluted	1.39	1.10	1.15
	Dividends per common share	$ .20	$ .18	$ .16
	Weighted-average shares	1,355.3	1,365.3	1,378.7
	Weighted-average shares–diluted	1,404.2	1,405.7	1,410.2

Consolidated statement of cash flows

(In millions)	Years ended December 31,	1999	1998	1997
Operating activities	Net income	$ 1,947.9	$ 1,550.1	$ 1,642.5
	Adjustments to reconcile to cash provided by operations			
	Depreciation and amortization	956.3	881.1	793.8
	Deferred income taxes	52.9	35.4	(1.1)
	Changes in operating working capital items			
	Accounts receivable	(81.9)	(29.9)	(57.6)
	Inventories, prepaid expenses and other current assets	(47.7)	(18.1)	(34.5)
	Accounts payable	(23.9)	(12.7)	52.8
	Taxes and other liabilities	270.4	337.5	221.9
	Refund of U.S. franchisee security deposits			(109.6)
	Other	(65.1)	22.9	(65.9)
	Cash provided by operations	3,008.9	2,766.3	2,442.3
Investing activities	Property and equipment expenditures	(1,867.8)	(1,879.3)	(2,111.2)
	Purchases of restaurant businesses	(340.7)	(131.0)	(235.9)
	Sales of restaurant businesses	241.5	149.0	149.5
	Property sales	20.9	42.5	26.9
	Other	(315.7)	(129.4)	(46.5)
	Cash used for investing activities	(2,261.8)	(1,948.2)	(2,217.2)
Financing activities	Net short-term borrowings (repayments)	116.7	(604.2)	1,097.4
	Long-term financing issuances	902.5	1,461.5	1,037.9
	Long-term financing repayments	(682.8)	(594.9)	(1,133.8)
	Treasury stock purchases	(891.5)	(1,089.8)	(755.1)
	Common and preferred stock dividends	(264.7)	(240.5)	(247.7)
	Series E preferred stock redemption			(358.0)
	Other	193.0	207.6	145.7
	Cash used for financing activities	(626.8)	(860.3)	(213.6)
	Cash and equivalents increase (decrease)	120.3	(42.2)	11.5
	Cash and equivalents at beginning of year	299.2	341.4	329.9
	Cash and equivalents at end of year	$ 419.5	$ 299.2	$ 341.4
Supplemental cash flow disclosures	Interest paid	$ 411.5	$ 406.5	$ 401.7
	Income taxes paid	642.2	545.9	650.8

The accompanying financial comments are an integral part of the consolidated financial statements.

Consolidated balance sheet

(In millions, except per share data)	December 31,	1999	1998
Assets			
Current assets	Cash and equivalents	$ 419.5	$ 299.2
	Accounts and notes receivable	708.1	609.4
	Inventories, at cost, not in excess of market	82.7	77.3
	Prepaid expenses and other current assets	362.0	323.5
	Total current assets	1,572.3	1,309.4
Other assets	Investments in and advances to affiliates	1,002.2	854.1
	Intangible assets–net	1,261.8	973.1
	Miscellaneous	822.4	606.2
	Total other assets	3,086.4	2,433.4
Property and equipment	Property and equipment, at cost	22,450.8	21,758.0
	Accumulated depreciation and amortization	(6,126.3)	(5,716.4)
	Net property and equipment	16,324.5	16,041.6
Total assets		$20,983.2	$19,784.4
Liabilities and shareholders' equity			
Current liabilities	Notes payable	$ 1,073.1	$ 686.8
	Accounts payable	585.7	621.3
	Income taxes	117.2	94.2
	Other taxes	160.1	143.5
	Accrued interest	131.4	132.3
	Other accrued liabilities	660.0	651.0
	Current maturities of long-term debt	546.8	168.0
	Total current liabilities	3,274.3	2,497.1
Other liabilities	Long-term debt	5,632.4	6,188.6
	Other long-term liabilities and minority interests	538.4	492.6
	Deferred income taxes	1,173.6	1,081.9
	Common equity put options	725.4	59.5
Shareholders' equity	Preferred stock, no par value; authorized–165.0 million shares; issued–none		
	Common stock, $.01 par value; authorized–3.5 billion shares; issued–1,660.6 million	16.6	16.6
	Additional paid-in capital	1,288.3	989.2
	Unearned ESOP compensation	(133.3)	(148.7)
	Retained earnings	15,562.8	13,879.6
	Accumulated other comprehensive income	(886.8)	(522.5)
	Common stock in treasury, at cost; 309.8 and 304.4 million shares	(6,208.5)	(4,749.5)
	Total shareholders' equity	9,639.1	9,464.7
Total liabilities and shareholders' equity		$20,983.2	$19,784.4

The accompanying financial comments are an integral part of the consolidated financial statements.

Consolidated statement of shareholders' equity

(In millions, except per share data)	Preferred stock issued[(1)]	Common stock issued Shares	Common stock issued Amount	Additional paid-in capital	Unearned ESOP compensation	Retained earnings	Accumulated other comprehensive income	Common stock in treasury Shares	Common stock in treasury Amount	Total shareholders' equity
Balance at December 31, 1996	$ 358.0	1,660.6	$16.6	$ 565.9	$(193.2)	$11,173.0	$(175.1)	(271.4)	$(3,027.0)	$8,718.2
Net income						1,642.5				1,642.5
Translation adjustments (including taxes of $104.0)							(295.4)			(295.4)
Comprehensive income										1,347.1
Common stock cash dividends ($.16 per share)						(221.2)				(221.2)
Preferred stock cash dividends ($1.93 per Series E depositary share)						(25.3)				(25.3)
ESOP loan payment					21.4					21.4
Treasury stock purchases								(32.4)	(765.0)	(765.0)
Common equity put options issuance									(80.3)	(80.3)
Preferred stock redemption	(358.0)									(358.0)
Stock option exercises and other (including tax benefits of $79.2)				125.0	0.5			14.6	89.2	214.7
Balance at December 31, 1997	0.0	1,660.6	16.6	690.9	(171.3)	12,569.0	(470.5)	(289.2)	(3,783.1)	8,851.6
Net income						1,550.1				1,550.1
Translation adjustments (including tax benefits of $84.2)							(52.0)			(52.0)
Comprehensive income										1,498.1
Common stock cash dividends ($.18 per share)						(239.5)				(239.5)
ESOP loan payment					22.5					22.5
Treasury stock purchases								(38.0)	(1,161.9)	(1,161.9)
Common equity put options issuance and expiration, net									20.8	20.8
Stock option exercises and other (including tax benefits of $154.0)				298.3	0.1			22.8	174.7	473.1
Balance at December 31, 1998	0.0	1,660.6	16.6	989.2	(148.7)	13,879.6	(522.5)	(304.4)	(4,749.5)	9,464.7
Net income						1,947.9				1,947.9
Translation adjustments (including taxes of $53.5)							(364.3)			(364.3)
Comprehensive income										1,583.6
Common stock cash dividends ($.20 per share)						(264.7)				(264.7)
ESOP loan payment					15.8					15.8
Treasury stock purchases								(24.2)	(932.7)	(932.7)
Common equity put options issuance and expiration, net									(665.9)	(665.9)
Stock option exercises and other (including tax benefits of $185.3)				299.1	(0.4)			18.8	139.6	438.3
Balance at December 31, 1999	$ 0.0	1,660.6	$16.6	$1,288.3	$(133.3)	$15,562.8	$(886.8)	(309.8)	$(6,208.5)	$9,639.1

(1) At December 31, 1996, 7.2 thousand shares were outstanding. These shares were redeemed in 1997.

The accompanying financial comments are an integral part of the consolidated financial statements.

Summary of significant accounting policies

Nature of business The Company develops, operates, franchises and services a worldwide system of restaurants that prepare, assemble, package and sell a limited menu of value-priced foods. McDonald's operates primarily in the quick-service hamburger restaurant business. Beginning in 1999, the Company also operates other restaurant concepts: Aroma Café, Chipotle Mexican Grill and Donatos Pizza.

All restaurants are operated by the Company or, under the terms of franchise arrangements, by franchisees who are independent third parties, or by affiliates operating under joint-venture agreements between the Company and local business people.

Consolidation The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliates owned 50% or less are accounted for by the equity method.

Estimates in financial statements The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign currency translation The functional currency of substantially all operations outside the U.S. is the respective local currency, except for hyperinflationary countries, where it is the U.S. Dollar.

Advertising costs Production costs for radio and television advertising are expensed when the commercials are initially aired. Advertising expenses included in costs of Company-operated restaurants and in selling, general and administrative expenses were (in millions): 1999–$522.9; 1998–$486.3; 1997–$548.7.

Stock-based compensation The Company accounts for stock options as prescribed by Accounting Principles Board Opinion No. 25 and includes pro forma information in the stock options footnote, as provided by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation.*

Property and equipment Property and equipment are stated at cost, with depreciation and amortization provided using the straight-line method over the following estimated useful lives: buildings–up to 40 years; leasehold improvements–lesser of useful lives of assets or lease terms including option periods; and equipment–three to 12 years.

Intangible assets Intangible assets, primarily representing the excess of cost over the net tangible assets of acquired restaurant businesses, are amortized using the straight-line method over an average life of about 30 years.

Financial instruments The Company uses derivatives to manage risk, not for trading purposes. Non-U.S. Dollar financing transactions generally are effective as hedges of either long-term investments in or intercompany loans to foreign subsidiaries and affiliates. Foreign currency translation adjustments from gains and losses on hedges of long-term investments are recorded in shareholders' equity as other comprehensive income. Gains and losses related to hedges of intercompany loans offset the gains and losses on intercompany loans and are recorded in nonoperating (income) expense.

Interest-rate exchange agreements are designated and effective to modify the Company's interest-rate exposures. Net interest is accrued as either interest receivable or payable with the offset recorded in interest expense. Gains or losses from the early termination of interest-rate exchange agreements are amortized as an adjustment to interest expense over the shorter of the remaining life of the interest-rate agreement or the underlying debt being hedged.

The Company purchases foreign currency options (with little or no initial intrinsic value) that are effective as hedges of anticipated foreign currency royalty and other payments received in the U.S. The premiums paid for these options are amortized over the option life and are recorded as nonoperating expense. Any realized gains on exercised options are deferred and recognized in the period in which the related royalty or other payment is received.

Forward foreign exchange contracts are also used to mitigate exposure on foreign currency royalty and other payments received from affiliates and subsidiaries. These contracts are marked to market with the resulting gains or losses recorded in nonoperating (income) expense. In addition, forward foreign exchange contracts are used to hedge long-term investments in foreign subsidiaries and affiliates. These contracts are marked to market with the resulting gains or losses recorded in shareholders' equity as other comprehensive income.

If a hedged item matures or is extinguished, or if a hedged anticipated royalty or other payment is no longer probable, the associated derivative is marked to market with the resulting gain or loss recognized immediately. The derivative is then redesignated as a hedge of another item or terminated.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* subsequently amended by SFAS No. 137, which is required to be adopted in years beginning after June 15, 2000. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged item through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The Company expects to adopt the new Statement effective January 1, 2001. Management does not anticipate that the adoption will have a material effect on the Company's results of operations or financial position.

Common equity put options During 1999, 1998 and 1997, the Company sold 27.0 million, 7.3 million and 5.3 million common equity put options, respectively, in connection with its share repurchase program. Premiums received are recorded in shareholders' equity as a reduction of the cost of treasury stock purchased and were $97.5 million in 1999, $20.5 million in 1998 and $8.1 million in 1997. At December 31, 1999, 17.5 million common equity put options were outstanding. The options expire at various dates through February 2001 at exercise prices between $39.63 and $44.03. At December 31, 1999, the $725.4 million total exercise price of these outstanding options was classified in common equity put options, and the related offset was recorded in common stock in treasury, net of the premiums received.

Per common share information Diluted net income per common share is calculated using net income divided by weighted average shares on a diluted basis. Net income used in the computation was reduced by preferred stock cash dividends of $25.3 million in 1997. The Company retired its remaining Series E Preferred Stock in December 1997. Weighted average shares on a diluted basis included weighted average shares outstanding plus the dilutive effect of stock options, calculated using the treasury stock method, of 48.9 million shares in 1999, 40.4 million shares in 1998 and 31.5 million shares in 1997.

Statement of cash flows The Company considers short-term, highly liquid investments to be cash equivalents. The impact of fluctuating foreign currencies on cash and equivalents was not material.

Made For You costs

During 1999, the Company completed the installation of the new Made For You food preparation system in virtually all restaurants in the U.S. and Canada. As part of the plan to introduce this system, the Company provided financial incentives during 1999 and 1998 of up to $12,500 per restaurant to owner/operators to defray the cost of equipment made obsolete as a result of converting to the new system. The Company also made additional payments in special cases where the conversion to Made For You was more extensive.

The Company incurred $18.9 million of Made For You costs in 1999 and $161.6 million in 1998, primarily consisting of incentive payments made to owner/operators as well as accelerated depreciation on equipment replaced in Company-operated restaurants.

Special charge

In second quarter 1998, the Company recorded a $160.0 million pre-tax special charge related to the Company's home office productivity initiative. The productivity plan was designed to improve staff alignment, focus and productivity, and reduce ongoing selling, general and administrative expenses. As a result, the Company reduced home office staffing by approximately 500 positions, consolidated certain home office facilities and reduced other expenditures in a variety of areas. The special charge was comprised of $85.8 million of employee severance and outplacement costs, $40.8 million of lease cancellation and other facilities-related costs, $18.3 million of costs for the write-off of technology investments made obsolete as a result of the productivity initiative and $15.1 million of other cash payments made in 1998.

The initiatives identified in the home office productivity plan were completed as of December 31, 1999, and no significant adjustments were made to the original plan. The remaining liability, primarily related to employee severance paid in semi-monthly installments over a period up to one year after termination, was approximately $31.1 million at December 31, 1999, and is included in other accrued liabilities in the consolidated balance sheet.

Franchise arrangements

Individual franchise arrangements generally include a lease and a license and provide for payment of initial fees, as well as continuing rent and service fees to the Company, based upon a percentage of sales with minimum rent payments. McDonald's franchisees are granted the right to operate a restaurant using the McDonald's system as well as the use of a restaurant facility, generally for a period of 20 years. Franchisees pay related occupancy costs including property taxes, insurance and maintenance. Beginning in 1998, franchisees in the U.S. generally have the option to own new restaurant facilities while leasing the land from McDonald's. In addition, franchisees outside the U.S. pay a refundable, noninterest-bearing security deposit. Foreign affiliates pay a royalty to the Company based upon a percentage of sales.

The results of operations of restaurant businesses purchased and sold in transactions with franchisees and affiliates were not material to the consolidated financial statements for periods prior to purchase and sale.

(In millions)	1999	1998	1997
Minimum rents	**$1,473.8**	$1,440.9	$1,369.7
Percent rent and service fees	**2,208.8**	2,026.9	1,836.3
Initial fees	**64.2**	58.7	66.3
Revenues from franchised and affiliated restaurants	**$3,746.8**	$3,526.5	$3,272.3

Future minimum rent payments due to the Company under existing franchise arrangements are:

(In millions)	Owned sites	Leased sites	Total
2000	$ 918.8	$ 683.2	$ 1,602.0
2001	905.0	674.7	1,579.7
2002	890.8	663.9	1,554.7
2003	872.0	650.4	1,522.4
2004	854.4	635.7	1,490.1
Thereafter	7,292.6	5,761.2	13,053.8
Total minimum payments	$11,733.6	$9,069.1	$20,802.7

At December 31, 1999, net property and equipment under franchise arrangements totaled $8.7 billion (including land of $2.6 billion) after deducting accumulated depreciation and amortization of $3.1 billion.

Segment and geographic information

The Company operates exclusively in the food service industry. Substantially all revenues result from the sale of menu products at restaurants operated by the Company, franchisees or affiliates. The Company's reportable segments are based on geographic area. All intercompany revenues and expenses are eliminated in computing revenues and operating income. Operating income includes the Company's share of operating results of affiliates after interest expense. These amounts are also after income taxes for affiliates outside the U.S. Royalties and other payments received from subsidiaries outside the U.S. were (in millions): 1999–$568.3; 1998–$526.0; 1997–$470.6.

Corporate assets include corporate cash, investments, asset portions of financing instruments, deferred tax assets and certain intangibles.

The Other segment includes McDonald's restaurant business operations in Canada, Africa and the Middle East as well as Other Brands: Aroma Café, Chipotle Mexican Grill and Donatos Pizza.

(In millions)	1999	1998	1997
U.S.	**$ 5,093.0**	$ 4,868.1	$ 4,602.7
Europe	**4,924.9**	4,466.7	3,931.5
Asia/Pacific	**1,832.3**	1,633.2	1,522.8
Latin America	**680.3**	814.7	709.2
Other	**728.8**	638.7	642.6
Total revenues	**$13,259.3**	$12,421.4	$11,408.8
U.S.	**$ 1,471.7**	$ 1,005.8[1]	$ 1,180.0
Europe	**1,203.4**	1,115.6	988.6
Asia/Pacific	**404.3**	343.9	362.2
Latin America	**127.5**	180.8	163.4
Other	**112.7**	115.8	114.1
Total operating income	**$ 3,319.6**	$ 2,761.9[1]	$ 2,808.3
U.S.	**$ 8,025.5**	$ 7,795.4	$ 7,753.4
Europe	**6,966.8**	6,932.1	6,005.4
Asia/Pacific	**2,828.2**	2,659.7	2,125.6
Latin America	**1,477.5**	1,339.6	1,177.8
Other	**979.3**	678.7	661.6
Corporate	**705.9**	378.9	517.7
Total assets	**$20,983.2**	$19,784.4	$18,241.5
U.S.	**$ 472.1**	$ 445.5	$ 584.0
Europe	**881.8**	870.2	929.5
Asia/Pacific	**188.4**	224.0	277.3
Latin America	**213.2**	236.8	227.9
Other	**112.3**	102.8	92.5
Total capital expenditures	**$ 1,867.8**	$ 1,879.3	$ 2,111.2
U.S.	**$ 444.5**	$ 432.3	$ 404.0
Europe	**305.2**	268.0	229.2
Asia/Pacific	**114.9**	97.3	82.8
Latin America	**45.5**	42.9	35.4
Other	**46.2**	40.6	42.4
Total depreciation and amortization	**$ 956.3**	$ 881.1	$ 793.8

(1) Includes $161.6 million of Made For You costs and $160.0 million special charge related to the home office productivity initiative.

Total long-lived assets, primarily property and equipment and intangibles, were (in millions): Consolidated 1999–$19,082.8; 1998–$18,244.4; 1997–$16,706.1. U.S. 1999–$7,984.9; 1998–$7,533.2; 1997–$7,530.7.

Income taxes

Income before provision for income taxes, classified by source of income, was as follows:

(In millions)	1999	1998	1997
U.S.	**$1,222.2**	$ 804.3	$1,004.6
Outside the U.S.	**1,661.9**	1,503.1	1,402.7
Income before provision for income taxes	**$2,884.1**	$2,307.4	$2,407.3

The provision for income taxes, classified by the timing and location of payment, was as follows:

(In millions)	1999	1998	1997
U.S. federal	**$347.4**	$267.8	$336.3
U.S. state	**68.9**	71.4	66.0
Outside the U.S.	**467.0**	382.7	363.6
Current tax provision	**883.3**	721.9	765.9
U.S. federal	**31.3**	32.8	2.5
U.S. state	**12.3**	(6.9)	13.5
Outside the U.S.	**9.3**	9.5	(17.1)
Deferred tax provision (benefit)	**52.9**	35.4	(1.1)
Provision for income taxes	**$936.2**	$757.3	$764.8

Net deferred tax liabilities consisted of:

(In millions) December 31,	1999	1998
Property and equipment basis differences	**$1,200.0**	$1,121.5
Other	**396.3**	355.2
Total deferred tax liabilities	**1,596.3**	1,476.7
Deferred tax assets before valuation allowance[1]	**(658.7)**	(561.8)
Valuation allowance	**101.9**	45.5
Net deferred tax liabilities[2]	**$1,039.5**	$ 960.4

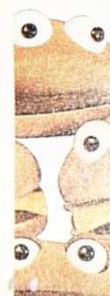
(1) Includes tax effects of loss carryforwards (in millions): 1999–$118.3; 1998–$67.1 and foreign tax credit carryforwards: 1999–$70.2; 1998–$38.5.

(2) Net of current tax assets included in prepaid expenses and other current assets in the consolidated balance sheet (in millions): 1999–$134.1; 1998–$121.5.

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

	1999	1998	1997
Statutory U.S. federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of related federal income tax benefit	**1.8**	1.8	2.1
Benefits and taxes related to foreign operations	**(4.4)**	(3.3)	(5.2)
Other–net	**.1**	(.7)	(.1)
Effective income tax rates	**32.5%**	32.8%	31.8%

Deferred U.S. income taxes have not been provided on basis differences related to investments in certain foreign subsidiaries and affiliates. These basis differences were approximately $2.4 billion at December 31, 1999, and consisted primarily of undistributed earnings considered permanently invested in the businesses. Determination of the deferred income tax liability on these unremitted earnings is not practicable since such liability, if any, is dependent on circumstances existing if and when remittance occurs.



Debt financing

Line of credit agreements At December 31, 1999, the Company had several line of credit agreements with various banks totaling $1.5 billion, all of which remained unused at year-end 1999. Subsequent to year end, the Company renegotiated the line of credit agreements as follows: a $500.0 million line expiring in February 2005 with fees of .06% per annum on the total commitment; a $25.0 million line with a renewable term of 364 days and fees of .07% per annum on the total commitment; and a $500.0 million short-term line with a renewable term of 364 days and fees of .04% per annum on the total commitment. Borrowings under the agreements bear interest at one of several specified floating rates selected by the Company at the time of borrowing. In addition, certain subsidiaries outside the U.S. had unused lines of credit totaling $699.3 million at December 31, 1999; these were principally short term and denominated in various currencies at local market rates of interest. The weighted-average interest rate of short-term borrowings, composed of U.S. Dollar and Euro commercial paper and foreign currency bank line borrowings, was 6.1% at December 31, 1999 and 6.2% at December 31, 1998.

Exchange agreements The Company has entered into agreements for the exchange of various currencies, certain of which also provide for the periodic exchange of interest payments. These agreements expire through 2008 and relate primarily to the exchange of Euro-based currencies, Japanese Yen and British Pounds Sterling. The notional principal is equal to the amount

of foreign currency or U.S. Dollar principal exchanged at maturity and is used to calculate interest payments that are exchanged over the life of the transaction. The Company has also entered into interest-rate exchange agreements that expire through 2011 and relate primarily to U.S. Dollars, Euro-based currencies and Australian Dollars. The net value of each exchange agreement based on its current spot rate was classified as an asset or liability. Net interest is accrued as either interest receivable or payable, with the offset recorded in interest expense.

The counterparties to these agreements consist of a diverse group of financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties, and adjusts positions as appropriate. The Company does not have significant exposure to any individual counterparty and has entered into master agreements that contain netting arrangements. The Company's policy regarding agreements with certain counterparties is to require collateral in the event credit ratings fall below A- or in the event that aggregate exposures exceed certain limits as defined by contract. At December 31, 1999, no collateral was required of counterparties and the Company was not required to collateralize any of its obligations.

At December 31, 1999, the Company had purchased foreign currency options outstanding (primarily Euro-based currencies, British Pounds Sterling and Japanese Yen) with a notional amount equivalent to U.S. $193.9 million. The unamortized premium related to these currency options was $2.7 million and there were no related deferred gains recorded as of year end. Forward foreign exchange contracts outstanding at December 31, 1999 (primarily British Pounds Sterling, Hong Kong Dollars and Australian Dollars) had a U.S. Dollar equivalent of $398.3 million.

Fair values

	December 31, 1999	
(In millions)	Carrying amount	Fair value
Liabilities		
Debt	$6,011.3	$6,048.4
Notes payable	1,073.1	1,073.1
Foreign currency exchange agreements(1)	167.9	191.5
Interest-rate exchange agreements(2)		8.7
Total liabilities	7,252.3	7,321.7
Assets		
Foreign currency exchange agreements(1)	205.5	151.0
Net debt	$7,046.8	$7,170.7

(1) Gross notional amount equivalent to U.S. $2.5 billion.
(2) Notional amount equivalent to U.S. $1.3 billion.

The carrying amounts for cash and equivalents, notes receivable, purchased foreign currency options and forward foreign exchange contracts approximated fair value. No fair value was provided for noninterest-bearing security deposits by franchisees as these deposits are an integral part of the overall franchise arrangements.

The fair values of the debt, notes payable obligations, the currency and interest-rate exchange agreements and the foreign currency options were estimated using various pricing models or discounted cash flow analyses that incorporated quoted market prices. The Company has no current plans to retire a significant amount of its debt prior to maturity. Given the market value of its common stock and its significant real estate holdings, the Company believes that the fair value of its total assets was substantially higher than the carrying value at December 31, 1999.

ESOP loans and guarantees The Company has guaranteed and included in total debt at December 31, 1999, $26.8 million of Notes issued by the Leveraged Employee Stock Ownership Plan (ESOP) with payments through 2006. In addition, during 1999 the Company borrowed $133.0 million that was subsequently loaned to the ESOP and used to repay existing ESOP notes previously guaranteed by the Company. Borrowings related to the ESOP are reflected as long-term debt with a corresponding reduction of shareholders' equity (unearned ESOP compensation). The ESOP is repaying the loans and interest through 2018 using Company contributions and dividends from its McDonald's common stock holdings. As the principal amount of the borrowings is repaid, the debt and the unearned ESOP compensation are being reduced.

The Company also has guaranteed certain affiliate loans totaling $178.2 million at December 31, 1999.

Debt obligations The Company has incurred debt obligations through public and private offerings and bank loans. The terms of most debt obligations contain restrictions on Company and subsidiary mortgages and long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The following table summarizes these debt obligations, including the effects of currency and interest-rate exchange agreements.

		Interest rates(1) December 31		Amounts outstanding December 31		Aggregate maturities for 1999 balances					
(In millions of U.S. Dollars)	Maturity dates	1999	1998	1999	1998	2000	2001	2002	2003	2004	Thereafter
Fixed–original issue(2)		6.9%	6.9%	$ 3,008.1	$ 3,452.6						
Fixed–converted via exchange agreements(3)		6.2	6.3	(1,773.1)	(2,072.7)						
Floating		6.7	5.3	470.7	357.2						
Total U.S. Dollars	2000–2037			1,705.7	1,737.1	$ 301.8	$(305.3)	$(286.9)	$(127.3)	$ (24.7)	$2,148.1
Fixed		5.6	6.2	1,941.2	1,771.6						
Floating		3.6	4.0	609.4	849.9						
Total Euro-based currencies	2000–2009			2,550.6	2,621.5	515.9	315.3	232.5	294.3	358.7	833.9
Fixed		7.6	7.7	596.5	529.4						
Floating		6.0	5.6	145.9	212.3						
Total British Pounds Sterling	2000–2008			742.4	741.7	234.7		24.2	160.6		322.9
Fixed		5.4	7.9	228.4	157.4						
Floating		4.8	2.1	15.6	137.9						
Total other European currencies(4)	2000–2004			244.0	295.3	99.0	50.8	37.0	8.1	49.1	
Fixed		3.5	3.8	488.1	387.5						
Floating		0.1	0.5	298.5	322.5						
Total Japanese Yen	2000–2023			786.6	710.0	97.9	176.2	146.8	93.9	77.3	194.5
Fixed		8.1	8.8	415.0	393.2						
Floating		6.4	6.8	503.0	337.6						
Total other Asia/Pacific currencies(5)	2000–2010			918.0	730.8	741.1	46.3	25.5	40.4	54.8	9.9
Fixed		6.9	7.4	13.2	9.3						
Floating		5.2	8.9	86.3	84.3						
Total other currencies	2000–2021			99.5	93.6	88.9	2.7	4.5	1.0	0.5	1.9
Debt obligations including the net effects of currency and interest-rate exchange agreements				7,046.8	6,930.0	2,079.3	286.0	183.6	471.0	515.7	3,511.2
Short-term obligations supported by long-term line of credit agreement						(500.0)					500.0
Net asset positions of currency exchange agreements (included in miscellaneous other assets)				205.5	113.4	40.6	54.7	32.5	32.1	34.8	10.8
Total debt obligations				$ 7,252.3	$ 7,043.4	$1,619.9	$ 340.7	$ 216.1	$ 503.1	$550.5	$4,022.0

(1) Weighted-average effective rate, computed on a semiannual basis.
(2) Includes $500 million of debentures with maturities in 2027, 2036 and 2037, which are subordinated to senior debt and which provide for the ability to defer interest payments up to five years under certain conditions.
(3) A portion of U.S. Dollar fixed-rate debt effectively has been converted into other currencies and/or into floating-rate debt through the use of exchange agreements. The rates shown reflect the fixed rate on the receivable portion of the exchange agreements. All other obligations in this table reflect the net effects of these and other exchange agreements.
(4) Primarily consists of Swiss Francs.
(5) Primarily consists of Australian Dollars and New Taiwan Dollars.

Leasing arrangements

At December 31, 1999, the Company was lessee at 5,468 restaurant locations through ground leases (the Company leases the land and the Company or franchisee owns the building) and at 6,239 restaurant locations through improved leases (the Company leases land and buildings). Lease terms for most restaurants are generally for 20 to 25 years and, in many cases, provide for rent escalations and renewal options, with certain leases providing purchase options. For most locations, the Company is obligated for the related occupancy costs including property taxes, insurance and maintenance. In addition, the Company is lessee under noncancelable leases covering offices and vehicles.

Future minimum payments required under existing operating leases with initial terms of one year or more are:

(In millions)	Restaurant	Other	Total
2000	$ 620.2	$ 61.3	$ 681.5
2001	608.1	49.9	658.0
2002	588.5	41.5	630.0
2003	565.7	34.8	600.5
2004	542.0	29.4	571.4
Thereafter	5,052.3	169.6	5,221.9
Total minimum payments	$7,976.8	$386.5	$8,363.3

Rent expense was (in millions): 1999–$796.3; 1998–$723.0; 1997–$641.2. These amounts included percent rents in excess of minimum rents (in millions): 1999–$117.1; 1998–$116.7; 1997–$99.4.

Property and equipment

(In millions) December 31,	1999	1998
Land	$ 3,838.6	$ 3,812.1
Buildings and improvements on owned land	7,953.6	7,665.8
Buildings and improvements on leased land	7,076.6	6,910.4
Equipment, signs and seating	2,906.6	2,728.8
Other	675.4	640.9
	22,450.8	21,758.0
Accumulated depreciation and amortization	(6,126.3)	(5,716.4)
Net property and equipment	$16,324.5	$16,041.6

Depreciation and amortization expense was (in millions): 1999–$858.1; 1998–$808.0; 1997–$726.4.

Employee benefit plans

The Company's benefits program for U.S. employees includes profit sharing, 401(k) (McDESOP) and leveraged employee stock ownership (ESOP) features. McDESOP allows participants to make contributions that are partly matched from shares released under the ESOP. Plan assets and contributions made by McDESOP participants can be invested in McDonald's common stock or among several other investment alternatives. The Company allocations under McDESOP and ESOP are generally invested in McDonald's common stock.

Executives, staff and restaurant managers participate in profit sharing contributions and shares released under the ESOP, based on their compensation. The profit sharing contribution is discretionary, and the Company determines the amount each year. Total U.S. costs for the above program were (in millions): 1999–$49.4; 1998–$63.3; 1997–$57.6.

Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 1999–$37.2; 1998–$37.5; 1997–$34.1.

Other postretirement benefits and postemployment benefits, excluding severance benefits related to the 1998 home office productivity initiative, were immaterial.

Stock options

At December 31, 1999, the Company had three stock-based compensation plans, two for employees and one for nonemployee directors. Options to purchase common stock are granted at the fair market value of the stock on the date of grant. Therefore, no compensation cost has been recognized in the consolidated financial statements for these plans.

Substantially all of the options become exercisable in four equal installments, beginning a year from the date of the grant, and expiring 10 years from the grant date. At December 31, 1999, the number of shares of common stock reserved for issuance under the plans was 178.1 million, including 13.4 million available for future grants.

A summary of the status of the Company's plans as of December 31, 1999, 1998 and 1997, and changes during the years then ended, is presented in the following table.

	1999		1998		1997	
Options	Shares *(in millions)*	Weighted-average exercise price	Shares *(in millions)*	Weighted-average exercise price	Shares *(in millions)*	Weighted-average exercise price
Outstanding at beginning of year	164.0	$19.32	156.3	$16.79	145.5	$14.73
Granted	25.4	40.35	33.7	25.90	30.2	23.53
Exercised	(18.8)	13.89	(22.8)	12.00	(14.6)	9.63
Forfeited	(5.9)	18.01	(3.2)	21.06	(4.8)	17.78
Outstanding at end of year	164.7	$23.06	164.0	$19.32	156.3	$16.79
Options exercisable at end of year	69.4		64.4		60.5	

Options granted each year were 1.9%, 2.5% and 2.2% of average common shares outstanding for 1999, 1998 and 1997, representing grants to approximately 11,600, 11,500 and 11,000 employees in those three years. When stock options are exercised, shares are issued from treasury stock.

The average per share cost of treasury stock issued for option exercises was: 1999–$7.38; 1998–$7.00; 1997–$6.47. The average option exercise price has consistently exceeded the average cost of treasury stock issued for option exercises because the Company prefunds the program through share repurchase. As a result, stock option exercises have generated additional capital, since cash received from employees has exceeded the Company's average acquisition cost of treasury stock. In addition, stock option exercises resulted in $418.5 million of tax benefits for the Company during the three years ended December 31, 1999. The following table presents information related to options outstanding and options exercisable at December 31, 1999, based on ranges of exercise prices.

			December 31, 1999		
	Options outstanding			Options exercisable	
Range of exercise prices	Number of options *(in millions)*	Weighted-average remaining contractual life *(in years)*	Weighted-average exercise price	Number of options *(in millions)*	Weighted-average exercise price
$ 7 to 9	7.6	1.4	$ 7.87	7.6	$ 7.87
10 to 15	36.1	3.6	13.43	28.1	13.23
16 to 23	43.3	6.4	20.60	15.1	19.55
24 to 34	53.1	7.5	25.67	18.5	25.37
35 to 46	24.6	9.5	40.58	0.1	40.52
$ 7 to 46	164.7	6.4	$23.06	69.4	$17.30

Pro forma net income and net income per common share were determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. For pro forma disclosures, the options' estimated fair value was amortized over their expected seven-year life. SFAS No. 123 does not apply to grants before 1995. As a result, the pro forma disclosures do not include a full seven years of grants, and therefore, may not be indicative of anticipated future disclosures. The fair value for these options was estimated at the date of grant using an option pricing model. The model was designed to estimate the fair value of exchange-traded options which, unlike employee stock options, can be traded at any time and are fully transferable. In addition, such models require the input of highly subjective assumptions, including the expected volatility of the stock price. Therefore, in management's opinion, the existing models do not provide a reliable single measure of the value of employee stock options. The following tables present the pro forma disclosures and the weighted-average assumptions used to estimate the fair value of these options:

Pro forma disclosures	1999	1998	1997
Net income–pro forma *(in millions)*	$1,844.0	$1,474.0	$1,589.3
Net income per common share–pro forma:			
Basic	1.36	1.08	1.13
Diluted	1.31	1.05	1.11
Weighted-average fair value per option granted	14.06	8.75	8.41

Assumptions	1999	1998	1997
Expected dividend yield	.65%	.65%	.65%
Expected stock price volatility	22.9%	18.0%	18.1%
Risk-free interest rate	5.72%	5.56%	6.61%
Expected life of options *(in years)*	7	7	7

Quarterly results (unaudited)

(In millions, except per share data)	Quarters ended December 31 1999	1998	Quarters ended September 30 1999	1998	Quarters ended June 30 1999	1998	Quarters ended March 31 1999	1998
Systemwide sales	$9,749.7	$9,316.0	$9,997.8	$9,246.2	$9,920.4	$9,247.6	$8,822.8	$8,169.7
Revenues								
Sales by Company-operated restaurants	$2,424.9	$2,304.5	$2,474.4	$2,305.7	$2,434.1	$2,270.4	$2,179.1	$2,014.3
Revenues from franchised and affiliated restaurants	948.0	916.2	969.8	909.3	973.0	910.4	856.0	790.6
Total revenues	3,372.9	3,220.7	3,444.2	3,215.0	3,407.1	3,180.8	3,035.1	2,804.9
Company-operated margin	414.1	418.2	458.8	437.5	448.9	426.7	361.1	350.9
Franchised margin	756.3	734.8	783.0	737.3	792.6	743.9	677.2	632.5
Operating income[1]	816.8	637.2	907.7	835.2	883.5	646.8[2]	711.6	642.7
Net income[1]	$ 486.2	$ 348.5	$ 540.9	$ 482.2	$ 518.1	$ 357.2[2]	$ 402.7	$ 362.2
Net income per common share[1]	$ .36	$ .26	$ .40	$ .35	$ .38	$ .26[2]	$ .30	$ .26
Net income per common share–diluted[1]	.35	.25	.39	.34	.37	.25[2]	.29	.26
Dividends per common share	$ .04875	$ .04500	$ .04875	$ .04500	$ .04875	$ .04500	$ .04875	$ .04125
Weighted-average shares	1,353.3	1,354.3	1,354.7	1,362.1	1,355.5	1,372.1	1,357.3	1,372.8
Weighted-average shares–diluted	1,401.4	1,399.1	1,403.1	1,404.7	1,405.6	1,415.1	1,409.2	1,403.9
Market price per common share								
High	$49 9/16	$39 3/4	$45 1/4	$37 1/2	$47 1/16	$35	$47 3/8	$30 1/8
Low	38 5/16	28 1/8	38 15/16	26 3/4	37 3/4	28 9/16	35 15/16	22 5/16
Close	40 5/16	38 7/16	43 1/4	29 7/8	41 1/8	34 1/2	45 5/16	30

(1) Includes Made For You costs in 1998 of $5.0 million ($3.4 million after tax) in second quarter; $10.6 million ($7.1 million after tax or $0.01 per share) in third quarter; and $146.0 million ($98.6 million after tax or $0.07 per share) in fourth quarter.

(2) Includes $160.0 million special charge related to the home office productivity initiative ($110.0 million after tax or $0.08 per share).

Management's Report

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and financial comments appearing in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles and include certain amounts based on management's judgment and best estimates. Other financial information presented in the annual report is consistent with the financial statements.

The Company maintains a system of internal controls over financial reporting including safeguarding of assets against unauthorized acquisition, use or disposition, which is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation of reliable published financial statements and asset safeguarding. The system includes a documented organizational structure and appropriate division of responsibilities; established policies and procedures that are communicated throughout the Company; careful selection, training and development of our people; and utilization of an internal audit program. Policies and procedures prescribe that the Company and all employees are to maintain high standards of proper business practices throughout the world.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances. The Company believes it maintains an effective system of internal control over financial reporting and safeguarding of assets against unauthorized acquisition, use or disposition.

The consolidated financial statements have been audited by independent auditors, Ernst & Young LLP, who were given unrestricted access to all financial records and related data. The audit report of Ernst & Young LLP is presented herein.

McDONALD'S CORPORATION
January 26, 2000

Audit Committee's Report

The Audit Committee is responsible for overseeing the financial reporting process, financial policies and internal controls on behalf of the Board of Directors. In this regard, it helps to ensure the independence of the Company's auditors, the integrity of management and the adequacy of disclosure to shareholders. Representatives of the internal audit function, independent auditors and financial management each have unrestricted access to the Committee and each periodically meet privately with the Committee.

In conformity with its charter, in 1999, among other things, the Committee recommended the selection of the Company's independent auditors to the Board of Directors; reviewed the scope and fees for the annual audit and the internal audit program; reviewed fees for nonaudit services provided by the independent auditors; reviewed the annual financial statements and the results of the annual audit with financial management and the independent auditors; consulted with financial management and the independent auditors regarding risk management; reviewed the adequacy of certain financial policies and internal controls; and reviewed significant legal developments.

The Audit Committee, which met six times during 1999, is comprised of five independent Directors: Gordon C. Gray, Chairman, Enrique Hernandez, Jr., Walter E. Massey, Roger W. Stone and B. Blair Vedder, Jr. Donald G. Lubin serves as secretary in a nonvoting capacity.

In December 1999, the New York Stock Exchange, Securities and Exchange Commission and Auditing Standards Board adopted new rules intended to improve disclosure relating to the composition and practices of audit committees and to enhance the reliability and credibility of financial statements. The rules must be implemented at various dates throughout 2000 and 2001. The Audit Committee is taking steps to comply on a timely basis with these rules.

AUDIT COMMITTEE OF THE
BOARD OF DIRECTORS OF
McDONALD'S CORPORATION
January 26, 2000

Report of Independent Auditors

The Board of Directors and Shareholders
McDonald's Corporation

We have audited the accompanying consolidated balance sheet of McDonald's Corporation as of December 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of McDonald's Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP
Chicago, Illinois
January 26, 2000

Directors and corporate officers

Board of Directors

Hall Adams, Jr.
Retired CEO, Leo Burnett & Co., Inc.

Gordon Gray
Chairman, Rio Algom Limited

Enrique Hernandez, Jr.
Chairman and CEO, Inter-Con Security Systems, Inc.

Jeanne Jackson
CEO, Wal-Mart.com

Donald Keough
Chairman, Allen & Company Incorporated

Donald Lubin
Partner, Sonnenschein Nath & Rosenthal

Walter Massey
President, Morehouse College

Andrew McKenna
Chairman and CEO, Schwarz Paper Company

Terry Savage
Financial Journalist, Author and President of Terry Savage Productions, Ltd.

Roger Stone
Retired President and CEO, Smurfit-Stone Container Corporation

Robert Thurston
Business Consultant

Blair Vedder, Jr.
Retired COO, Needham Harper Worldwide, Inc.

James Cantalupo
Vice Chairman and President

Jack Greenberg
Chairman and CEO

Michael Quinlan
Chairman of the Executive Committee

Fred Turner
Senior Chairman

June Martino
Honorary Director

Advisory Directors

(Appointed to serve a one-year term in a nonvoting capacity)

Marcel Fleischmann
Managing Director–Brazil

Debra Koenig
President–Southeast Division

Matthew Paull
Senior Vice President

Philippe Walch
International Relationship Partner

Corporate Officers

Claire Babrowski
Executive Vice President

Charles Bell
President–Asia/Pacific, Middle East and Africa Group

James Cantalupo
Vice Chairman and President

John Charlesworth
President–Midwest Division

Michael Conley
Executive Vice President, Chief Financial Officer

Kevin Dunn
President–Great Lakes Division

Alan Feldman
President–U.S.A.

Patrick Flynn
Executive Vice President

Henry Gonzalez, Jr.
President–Northeast Division

Jack Greenberg
Chairman and Chief Executive Officer

Jeffrey Kindler
Executive Vice President, Corporate General Counsel

Debra Koenig
President–Southeast Division

Raymond Mines, Jr.
Executive Vice President

Michael Roberts
President–West Division

Eduardo Sanchez
President–Latin America Group

James Skinner
President–Europe Group

Stanley Stein
Executive Vice President

Corporate Controller

Christopher Pieszko

Investor information

Investor information and services

Account information and assistance including information on account balances, transaction history, share sales, certificate safekeeping, certificate withdrawals, direct deposit of dividends, stock price as well as registration and name changes and account consolidations can be obtained:

> *at www.equiserve.com*. To access your account on this secure Website, please have your account number, U.S. social security number, if applicable, and password available. Call the number below if you need to obtain a new password.

> *by calling* 1-800-Mc1-STCK (1-800-621-7825) from the U.S. and Canada or 1-201-222-4990 (collect) from other countries. The automated response system is available 24 hours daily, 7 days a week and service representatives are available weekdays from 9:00 a.m. to 5:00 p.m. Eastern Time (ET).

> *via a TDD service* for the hearing impaired at 1-201-222-4489. This service is available weekdays from 9:00 a.m. to 5:00 p.m. ET.

> *by writing* to McDonald's Shareholder Services, c/o EquiServe, P.O. Box 2591, Jersey City, NJ 07303-2591.

Current financial releases are available on the Web at www.mcdonalds.com, via fax at 1-630-623-0172 and via audio recording at 1-630-623-6543.

MCDirect Shares is our direct stock purchase plan through which investors can purchase McDonald's common stock and reinvest dividends. A MCDirect Shares prospectus and enrollment form is available on McDonald's Website at www.mcdonalds.com. To receive a Plan prospectus and enrollment form by mail, call 1-800-228-9623 or via fax at 1-630-623-0172.

Dividends declared in the future at the discretion of the Board will be paid on an annual basis in December beginning in 2000. Given McDonald's high returns on equity and assets and our global growth opportunities, management believes reinvesting a significant portion of earnings back into the business is prudent. Accordingly, our per share dividend is low. However, we have increased the per share dividend amount 25 times since our first dividend was paid in 1976. Additional dividend increases will be considered in the future.

McDonald's has or will participate in these individual investor events in 2000: *March 4–5*, Eighth Annual Louis Rukeyser Investment Conference, Las Vegas, NV; *March 11*, NAIC South Texas Chapter Investment Fair, San Antonio, TX; *April 8*, NAIC Kansas City Chapter Investment Fair, Kansas City, MO; *November 11*, Puget Sound Chapter Investment Fair, Bellevue, WA.

McDonald's 1999 annual report on form 10-K may be obtained without charge by accessing McDonald's filings at www.sec.gov or by writing McDonald's Investor Relations Service Center at the home office address at right.

A report on our efforts to monitor compliance with McDonald's Suppliers' Code of Conduct and a copy of the Code are available by calling 1-630-623-7428 or writing McDonald's Investor Relations Service Center at the home office.

Annual shareholders' meeting

May 18, 2000, 10:30 a.m. to 12:00 p.m. Central Time
Rosemont Theatre, 5400 North River Road, Rosemont, IL 60018
Can't come? Watch a replay of the Annual Meeting on McDonald's Website!

McDonald's Website

www.mcdonalds.com

McDonald's Website contains extensive information about the McDonald's System including current promotions, news, investor materials, nutrition, franchising, career opportunities, community and environmental efforts and history. You can also send us comments about your restaurant experience at www.mcdonalds.com/corporate/info/contacts/comments.

General inquiries

Customers and general public 1-630-623-6198
Financial media 1-630-623-3678
Franchising 1-630-623-6196
Investor inquiries 1-630-623-7428
Ronald McDonald House Charities 1-630-623-7048
Stockbroker inquiries 1-630-623-5137

Home office

McDonald's Corporation, McDonald's Plaza, Oak Brook, IL 60523

Stock trading information

Stock exchange listings
New York, Chicago, Paris, German and Swiss

Trading symbol
MCD

McDonald's stock is included in many indices such as the Dow Jones Industrial Average, the S&P 500 and the S&P Globally Traded Index.

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Like Rico Hizon, many individuals worked as crewpeople at McDonald's restaurants around the world. Are you one of them? If so, we'd like to hear from you.

Please e-mail information about yourself and your McDonald's work experience to crew.alumni@mcdonalds.com. Be sure to include your name, mailing and e-mail addresses, telephone number, the year(s) during which you worked at McDonald's, the McDonald's restaurant at which you worked and what you are currently doing. It would also be helpful if you could tell us how your McDonald's work experience influenced you. Upon receipt of your information, we will add you to our list of crew alumni.

< Read about Rico Hizon and other McDonald's crew alumni in our feature story starting on page 16.

McDonald's Corporation
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www.mcdonalds.com